JANUARY 1951

CREDIT and FINANCIAL MANAGEMENT

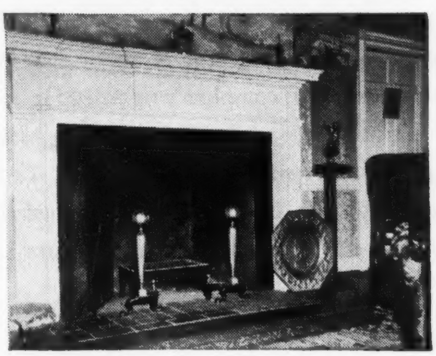
A Publication of

The National Association of Credit Men

Bus. Adm.
Faxon

Famous American Homes

ISLAND HOME
of Michigan's Great Woman Pioneer



"YOU have killed my husband!" The anguished cry broke the stillness of the Pottawattomie village on Lake Michigan where Madeline and Joseph Laframboise were spending the night. Enraged at the fur trader's refusal to give him liquor, Nequat, a young brave, had stolen into their tent and slain the devout Joseph as he knelt in prayer.

The Pottawattomies who were outraged by the wanton murder of their trusted friend eventually captured Nequat and brought him to Madame Laframboise for judgment. Though she was the granddaughter of Returning Cloud, famous Ottawa chieftain, she followed the Christian faith of her French father and even when confronted by the slayer of her beloved husband, she heeded the Biblical admonition to forgive one's enemies. "Set him free," she told Nequat's captors. The Indians reluctantly obeyed but later Nequat was found in the forest with a knife through his heart.

Madeline had traveled with her fur trader husband ever since she married him in 1796 at the age of seventeen. Through the wilds of early Michigan and over the waters of Lake Huron to the great fur depot on Mackinac Island, for many years the couple carried on their business together. Because of Joseph's acumen and his wife's tact and understanding of the Indians they were outstandingly successful. After her husband's death, despite her overwhelming grief Madeline continued the work alone. A woman of great charm and enterprise, she became one of the Northwest's greatest fur traders.

As the years went by, Madeline's daughter Josette returned from school in Montreal and like her mother captivated all by her loveliness. In 1817 Josette was married to the commandant of Fort Mackinac, Captain Benjamin Pierce, brother of Franklin Pierce who became President. At the wedding, Madame Laframboise, wearing Indian attire, was a striking figure.

The young couple made their home on Mackinac Island and here Captain Pierce built a house for his mother-in-law. Josette's untimely death after four years of married life, followed by that of her little son, impelled Madame Laframboise to give up her work as a fur trader. Settling down in her home on Mackinac, she spent her time helping the less fortunate and, in particular, befriending the Indians, who called her "Little Mother." She had always spoken French like a Parisian and in middle age she taught herself to read and write the language fluently.

Beneath the altar of St. Anne's Church, which stands on the property she bequeathed, Madeline Laframboise and Josette are buried. Her island home is now privately owned. Surrounded by ancient lilac trees planted by missionaries who brought the seedlings from France, it is carefully preserved as a survival of Michigan's early days.

* * *

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Editorial

The function of Congress

THIS month we have a new Congress. From it the people expect a change of attitude and action. This was clearly indicated in November. It would be most constructive if the Congress of the United States were to re-examine its constitutional authority and responsibilities. In recent years it has yielded too much of its authority and its responsibilities have in the process been neglected.

The Congress represents the people of the United States. The Constitution placed great confidence in the protection of the United States by Congress. It did not intend that any other branch of the government should discharge the responsibilities assigned to Congress. It did intend that Congress should be supreme in its own right in its constitutional obligations. It did intend that all branches of government should cooperate and it wisely established a system of checks and balances by establishing the three divisions of government, legislative, executive and judicial.

Many of the problems we face today are the result of disrespect for this division of authority. In some cases it has been completely ignored. It is doubtful whether the problems would be as severe had these violations not taken place. One evidence of our acquiescence can be found in the term "must legislation." Legislation desired by the executive branch has frequently been labelled as "must legislation" yet constitutionally there can be no "must legislation" except that which originates in Congress.

The nation will be benefited, and the world too, if the Congress of the United States assumes a cooperative independence and if the executive and judicial branches of government as well keep their activities within their constitutionally delegated powers. There is a need of the revival of the principles of government upon which this nation was founded. That revival can best be initiated by Congress' asserting its rights and assuming its true responsibilities.

Henry H. Heimann

HENRY H. HEIMANN,
EXECUTIVE MANAGER

COMING EVENTS

1951

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55th

Annual

Credit

Congress

◆

May 13-17

◆

Boston,

Mass.

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THIRTY DAYS IN WASHINGTON

A check list of items of interest to Financial Executives

REGULATION "W": Two Bulletins by the Federal Reserve System explain sections of this regulation on credit. One covers loans on disaster cases and one explains credits on quantity sales of listed articles. Both Bulletins may be obtained from any member bank of the Federal Reserve System.
If you wish to know about the interpretations by the Federal Reserve System on the various sections of Regulation W write to the Federal Reserve Bank for your district for a pamphlet entitled "Summary of Interpretations issued by the Board of Governors of the Federal Reserve System" which apply to the Regulation W which became effective September 18, 1950. This Summary was published in the Federal Register on November 17, 1950.

RENT CONTROL was extended to March 31st when President signed bill on December 21.

WAGE STABILIZATION AMONG AUTO WORKERS. Economic Stabilization Agency announced Wage Stabilization Regulation No. 1. Obtainable from Economic Stabilization Agency Title 33A, National Defense Appendix.

LIMITING INVENTORIES ON CADMIUM AND ALUMINUM. National Production Authority Orders M19 and M7. Texts obtainable from National Production Authority.

FEDERAL RESERVE SYSTEM LIFTS RESERVE REQUIREMENTS TWO POINTS. Action will affect two billion in loanable funds.

COBALT AND COPPER. National Production Authority issued orders curtailing inventories of these metals. Order No. 10 M on Cobalt and Amendment 1 on M-12 on Copper January 2.

ANTI-TRUST LAW UPHELD AGAINST DISTILLERS. On January 2 U. S. Supreme Court ruled that agreements to fix resale prices by wholly owned units of a holding corporation violate Sherman Anti-Trust Law. Opinion reverses ruling by a lower court in case against Joseph C. Seagram & Sons and Calvert Distilling Company. Common ownership and control does not free the companies of the penalties of the anti-trust laws.

LAST BILL PASSED BY 81ST CONGRESS. At its session held on January 1st, the House by a voice vote passed and sent to the White House a conference compromise $3,300,000,000 Excess Profits Tax bill. This bill increases the basic tax rate, for corporations earnings more than $25,000 yearly, from 45 to 47 percent and carries an effective levy of 77 percent on "excess profits" which are figured according to a formula based upon the corporations' capital investment. This bill has been signed by the President and is now law. All leading tax services will shortly issue complete interpretations of this new law.

On January 2nd the Senate by voice vote adopted the compromise 20 billion dollar defense appropriation bill to strengthen the Armed Forces, the Atomic Energy Commission and the War Shipping Administration.

1951 Offers Big Opportunities to NACM

By A. J. SUTHERLAND
President, National Association of Credit Men
and President, Security Trust and Savings Bank, San Diego

AFTER a recent tour of twenty Association cities I am convinced that our organization faces a great opportunity and will play an important part in the national economy during the months ahead. Whether we go into an all-out war production or gradually develop a preparedness program ot large proportions, we all know that the rules for "business as usual" must be temporarily changed. Failures may increase, the number of involved creditors may perhaps develop a sudden spurt, but with the services of our organization available on a nationwide scale, such events can be handled without disrupting the general flow of business.

I feel sure that the year 1951 will be an important one for the National Association of Credit Men, as credit will play an important part in our preparedness and armament program. Wars have been lost through unsound credit policies so we must see to it that our nation does not fail in this crisis because of improper use of credit or through the effects of runaway inflation. A strong credit policy is very necessary as we start out on a war production program. Our organization will do everything possible to speed credits on war production orders but we must use our regular formulas in evaluating credits on war orders. We must be careful that cases such as that of the Lustron Corporation, which had been financed to the sum of 50 million dollars by the Reconstruction Finance Corporation, do not show up in the grist of war-order credits either under the Defense Production Act or Regulation V.

Wherever I went on my recent tour I urged business men to hold steadfastly to the basic principles of credit evaluation to the end that business credit be properly used and that we apply the same principles to preparedness credits as well.

IN MANY of the cities I visited during my recent tour I had the great privilege of meeting up with some of the prominent bankers. This gave me an opportunity to discuss the many benefits of the Local and National Associations with these banking executives. At these meetings I emphasized some of the outstanding service features of our organization and I also took occasion to mention Mr. Heimann's Monthly Business Review and point out how well it is received throughout the country. In each city the Federal Reserve Bankers were especially enthusiastic about how the National Association of Credit Men has supported the various functions of the Federal Reserve System. It was indeed a great pleasure to me to be able to state that Senator Carter Glass had given our Association credit for being one of the strong influences in securing the passage of the Federal Reserve Bank Act. These banker friends also were interested in the success of our organization in securing the passage of Uniform Bulk Sales laws, Fictitious Names Laws, and laws affecting the assignment of accounts in a number of states. The Par Clearance score sheet as shown in the December issue of CREDIT AND FINANCIAL MANAGEMENT was another point on which the bankers gave high praise to our national organization. There are now only 1861 banks in the United States which do not pay at par, 414 of these are in Minnesota, 287 in Georgia, 161 in Mississippi, 113 in North Carolina, and 98 in Louisiana. Par clearance bankers pointed to the efforts of our Association in Iowa, Nebraska, and Wisconsin in securing the passage of state laws requiring payment of all bank checks at par.

The excellent results obtained through the Adjustment Bureaus maintained by local Associations were endorsed by most of the banker friends as being capable and efficient and producing such results at much lower costs than in the bankruptcy courts.

Get out and sell!

In reference to local Association affairs, I would not be fair if I didn't say that I was appalled at the apparent under-selling which is being done by the local Associations when there is such an opportunity for increased membership in some of the cities. We little realize that our Association is a cross section of the credit departments of all lines of business and could exercise a greater and greater influence in the proper use of both business and government credit.

I was told again and again by bankers and other top executives that the Association can be sold not only on its direct benefits but its indirect benefits. One of the indirect benefits is its program for more equitable taxation. Among other indirect benefits would be listed many of the items mentioned above such as the Monthly Business Review, etc. I am convinced that the members get more for their investment out of their membership in the Local and National Associations than any organization they belong to. We all belong to many other organizations from which we receive no direct benefits.

What I am trying to point out is simply this. You've got to sell your Local and National Associations and you've got to have a sales force to do it. If your sales force has to be trained I know of no better way than going through Ed Moran's school, or if this is not possible, use his slides and other material. I know we here in the West think Sam Schneider runs an excellent association in Louisville; still Sam told me the head of his sales department secured from one of Ed's schools some valuable information which he could use in selling membership. The only reason our membership isn't double is a lack of selling. There are organizations that are doing an excellent job. Sam told me that he thought he had reached the limit at six hundred and now with over one thousand he knows he still has good prospects.

Plenty of Business Activity, but Less Civilian Goods to be Expected In 1951, Henry Heimann Thinks

THE year 1951 will show increased business activity, but with civilian goods restricted because of the tempo of our war effort, says Henry M. Heimann, Executive Manager of the National Association of Credit Men, in his end of the year statement. He makes the following observations on business in 1951.

Labor will be in short supply. Wages, despite all efforts to control inflation, will rise in dollars. The buying power, however, of the dollar may deteriorate further. The decline need not be drastic.

Taxes may increase to the point where they may destroy incentive and slow down our accelerated production. A war situation, however, would boom per capita production.

Business earnings have passed their peak.

Agriculture will stimulate production through heavier plantings and better farming. The income of the farmer will be maintained at a high level.

Interest rates will rise, though not sharply.

Construction of homes will decline rather drastically.

Automobile production will be curtailed.

The cost of living will continue to rise.

Expect more controls and more regulations in 1951.

Business Program

Mr. Heimann also outlined a program which would be helpful to business, to labor and to agriculture in meeting the pressure of a war economy in 1951. For business he suggests:

Don't speculate in inventories. Watch particularly shoddy or synthetic inventories. Poor quality products will be a drug on the market after the defense program is completed.

Keep your equipment up to the minute. Be more cautious about plant expansion irrespective of the tax amortization law. Your overhead will be an important factor later on. Do all possible to keep it down.

Be sure to anticipate your increased taxes not only in the year's balance sheet because of any retroactive feature but in its impact on your cash position.

Maintain a strong sales and credit department. You'll need them badly later on.

Continue to improve your product.

Don't make the mistake of selling only to gilt edge credit risks. Instead develop better credit worthiness with your marginal customers through guidance and sound counsel and advice. Marginal customers today may mean the difference between a profit and loss tomorrow.

Agriculture Program

The head of the nation-wide organization of credit executives offers the following suggestions to agriculture:

Improve your soil. The day of subsidy may soon come to an end. Modernize your farm. Keep your equipment in top shape. Continue diversification if you want to avoid a feast and famine program.

Land values are high — don't speculate at this point in land values.

Make your farm so attractive your children will want to stay at home. They will be needed on the farms and they will be independent in their own right as farmers.

Labor Program

His suggestions for labor are:

Do a good day's work. It will help check inflation and keep you happier. You have helped give America its high standard of living. Keep it up—it will pay you dividends.

Take a more active part in your union. Remember you and your fellow-workers are the union.

Never forget that you suffer from inflation. It doesn't do you any good to get a fat pay check that buys less and less of what you need.

Don't let the politician spend your money. You earned it. Insist on your spending it.

Your right to vote is sacred. Cherish it and vote at every election.

"The year ahead will call for great sacrifices," Mr. Heimann said in conclusion. "They will be cheerfully made in the interests of a stronger America and a more peaceful world. However, sacrifices and controls will be resented if colored by politics or used for social experiments not contributing to our objective.

"Domestically one of the great fears is that of continued inflation. Inflation is the result of a dangerous ratio of money supply to available goods and services. It can be checked by limiting money supply or bringing up production of civilian goods to get it in a comfortable balance to our money supplies.

"It is obvious it will be most difficult if not impossible to increase the production of peacetime civilian goods and services when so much of our effort will be required for war or defense purposes. It is also a sad fact that the limitation or reduction of money supply is politically next to impossible. With billions of dollars accumulated in the hands of the consuming public any controls or regulations limiting civilian production and buying will merely defer inflation or cause a wild scramble for the limited supply of goods."

WHY CLOSE YOUR BOOKS AT DECEMBER 31?

by a Company President

HAVE you ever been asked an embarrassing question? Well, I have! A few years ago when our new director asked why our company closed its books on December 31, frankly, I couldn't give him any good reason. As a result, we decided to investigate the advisability of other closing dates and found, much to our surprise, that there were many factors to be considered in establishing the correct yearly closing date for our company.

Our company manufactures automobile accessories and we had always reported the results of operations on a December 31 year. That time of year has always been one of our busiest seasons. Despite the feverish activity of our accounting department, we have never been able to expedite the routine mechanics of closing our books to obtain financial information for management before it became ancient history. Our company had been advised of the advantages of a natural business year in the past by our auditors. Like so many things, however, we kept putting off a change in our accounting period because it seemed relatively unimportant and also because we never paused to consider what effect it would have on our operations.

Changed to July

An analysis of our monthly production, sales, inventory, and receivables for a period of time, disclosed that the lowest point in our annual business cycle occurred in July. On this basis, we decided to make a change to a fiscal year ending July 31 and filed requests with the Commissioner of Internal Revenue and with our various State taxing authorities for permission to change our accounting period. Permission from each was easily obtained.

Our change to a natural business year has resulted in several important advantages. First, our statements prepared on a July 31 fiscal year have a "new look." We are no longer confronted with substantial working capital tied up in inventories and receivables since these items at this time of year have been substantially liquidated and appear as cash, giving a much healthier appearance to our balance sheet.

Reduces conjecture

The elimination of sizable inventory and receivable balances which had always appeared in our calendar year statements also did away with much of the conjecture as to "valuation" of these items. With smaller inventories, the work of taking and pricing the inventory was cut approximately in half, thus effecting a saving in man-hours. Not only did we effect an overall saving in man-hours with respect to this item, but at July 31 our organization was better able to absorb the work of taking inventory and had more people available for this purpose. Furthermore, our auditors required less time to verify inventory and receivables, giving them additional time for other important auditing tests. Our accounting department also substantially eliminated much of its year-end closing overtime costs which had been incurred on a calendar year basis, since it did not have to contend with a peak-period work load at the time the books were closed.

Our general business policies are formulated in the fall in advance of our busy season. We found that financial statements prepared on the basis of our natural business year reflected the results of our policies over one complete cycle of operations; whereas, our calendar year statements reflected the results of operations in two different periods in our business cycle, making comparisons between years difficult. During the lull in our business which usually continues into August, management also has more time to critically review the results of the preceding year. Having the financial statements reach management promptly during our slow season has been extremely helpful and has permitted more careful and intelligent planning for the following year.

Bankers like the idea

Our bankers are much happier with the natural business year. They are particularly impressed with the fact that our new statements give them an opportunity to see how the concern looks in its most liquid condition. Furthermore, they like the idea of statements which give them more facts and less estimates, plus the added advantage of being able to compare our company with the industry as a whole which generally has adopted an accounting period ending in July or August.

We learned that the natural business year is an important factor in giving our management financial tools with which to work. In our case, we now realize just how important this can be and that a calendar year accounting period was completely unsuited to our needs. Perhaps you should ask yourself: "Why do I close my books at December 31?" You don't expect your salesman to give you a report in the middle of his call before he knows the results, so why make your company report on its operations in the middle of the season or natural cycle of activity?

(From a pamphlet prepared by the Natural Business Year Committee of the Illinois Society of Certified Public Accountants.)

This Mere Memorandum Held to be Good Consignment Contract

In re Hatfield, 182 F. 2d 759. In this case the U. S. Court of Appeals for New Mexico held that the following writing entitled the consignor to reclaim goods from the trustee in bankruptcy for the consignee. "Ship to ———, Santa Fe, N. M. These goods are billed as consigned merchandise and remain the property of ———, Chicago, Ill., and to be returned to ——— on demand." The consignee had, of course, been put on notice that the goods were shipped to him subject to the memorandum.

—C. B. E.

We Started A Special

CREDIT DEPARTMENT SERVICE

for our smaller customers

by L. D. HOILAND

Credit Manager, Crown Willamette Paper Company, San Francisco

DURING the war years 1942-1945 when production was restricted and a surplus of salable merchandise was conspicuous by its absence, it was not deemed necessary to cultivate the acquaintance of many new accounts, particularly those in the borderline category. As a consequence the credit fraternity found their activities to quite an extent were confined to the prosaic duty of following up on collections. Hence, a goodly portion of their time was devoted to reading CREDIT AND FINANCIAL MANAGEMENT and other publications.

About this time the idea was conceived of rendering a special service to our customers in the form of a regular and standard form of financial statement analysis. It was the writer's privilege to work up the details and inaugurate this service, and the first step was to ascertain in our mind what would be the simplest and best way to achieve this desirable result.

Size of customers checked

CREDIT men are aware of the fact that there are a multitude of ratios which can be worked up from any financial and operating statement. However, the thought occurred to us that by centralizing on ten or a dozen of the simplest and understandable percentage ratios, we would be accomplishing something useful to our customers in the trade. At the same time valuable credit information and data would become available to us.

It so happens that many customers who might need this sort of analytical review of their operating and financial statements are in the net worth category up to, say, $50,000. Those beyond this figure in equity value are, in many cases, successful firms which have gradually acquired a substantial net worth over a period of years as the result of wise management. While they might appreciate this sort of service just as much as smaller companies would, the fact remains that most of them would have in their employ outside certified public accountants or very capable inside men doing this sort of work. Therefore, they might not fully appreciate or be as receptive as some other firms who in many instances may have fallen upon evil days, financially speaking, and who would need this assistance.

After due deliberation, we concluded that the following should be the basis of our initial and continuing efforts in this direction. To head the list we placed gross profits on sales, followed by net profits on sales; net profit earned on investment; accounts receivable to average monthly sales; inventory to average monthly cost of sales; inventory to net working capital; inventory turnover; fixed assets to net worth; total debt to net worth; current assets to current liabilities; net working capital to total assets; and finally, the percentage of our company's sales to customer's cost of sales. In the case of converters we added the relation of sales to fixed assets.

How ratio were developed

STANDARD printed forms to fit 8½" x 11" binders are used showing the foregoing classifications followed by the wording "Ratio Percentage" or just the word "Percentage." The corresponding amounts in even dollars are inserted opposite the item in question and under the date column shown at the top.

Customer sheets are then passed

to a comptometer operator who develops the percentage ratios carried out to two decimals, for example, 21.32%. If the number of days is required, as in the case of accounts receivable to sales, or inventory to cost of sales, the resulting percentage would be multiplied by 30.

Thus when a firm's operating and financial statement is received which we think it advisable to analyze in this standard fashion, a customer sheet is prepared. Future statements are likewise entered and, therefore, a condensed bird's-eye picture of any customer's financial and operating progress is quickly available

After percentages have been calculated, the next step, obviously, is to analyze or comment on the situation as developed by the most recent statement, and its comparison with one or more previous periodical statements. In addition we show in a column to the right in pencil the latest national averages for wholesale paper houses.

Our customer upon receiving this confidential analysis can see at a glance what progress, if any, has been made, and how his performance and position compares with the national averages for concerns in the same line of business.

Service of benefit

IT has afforded us considerable satisfaction to realize that financial statement analysis of this particular type has been of distinct benefit and service to many of our customers. At the same time it has been of material advantage to us by adding valuable credit information to our files. Many instances could be related showing benefits to firms who have taken our analysis and comments to heart and thereby improved their position. A confidential and close working cooperation has often resulted from these surveys.

In our analyses we have always attempted to be fair and honest, but at the same time we have felt that inasmuch as a service of this nature is furnished gratis we should be privileged to offer constructive criticism wherever we felt it necessary to do so. By the same token praise is given when merited.

These periodical financial statement analyses have been followed in many cases by a call upon our customer at his place of business, the purpose being to explain certain features of the survey and to obtain, in some cases, additional necessary financial information.

OTHER points are commented upon, such as the amount and percentage of discount earned on purchases. This clearly shows whether or not a firm is short of working capital and forced to pay on terms beyond the usual discount period. If operating expenses compared with national averages are out of line as a total or in certain categories, this point is also stressed. It has been our experience that selling expense, for example, may be entirely out of line with gross profits earned and sales volume obtained.

In the final analysis the success of our customers means our success. If they are losing money in their operations sooner or later they may be in serious financial difficulty which, in turn, would adversely affect us. It seems to us, therefore, that assistance of this nature is both logical and desirable. An unsuccessful merchant is not necessarily a desirable ledger account.

Work is not burdensome

We have found also that these analytical surveys, if records are maintained in a systematic manner, are not so difficult and time-consuming as to make it a burden upon the credit department. After all, this information should be in our credit files, and while we are at it a copy might just as well be made for our customer, accompanied by a suitable short letter. Thus a reserve of goodwill is built up which is invaluable to the credit and sales departments and to the corporation.

Here is an actual example of a customer analysis:

ANALYSIS OF OPERATING STATEMENT AND BALANCE SHEET FOR THE SIX MONTHS PERIOD ENDING JUNE 30, 1948

JOHN DOE, DBA, DOE COMPANY

We finally received their statement for the above period and a rough analysis follows. We have shown the comparison that exists between the 12 months ending December 31, 1947, and June 30, 1948. This will show clearly the improvement that has been accomplished by Mr. Doe in the various categories.

Classification	*12/31/47*	*6/30/48*
(Period in mos.)	(12)	(6)
Gross Profit	41,534	29,742
Sales	264,570	129,117
Per Cent	15.70%	22.35%

The gross profit margin of 22.35% is a decided improvement over the previous period and it seems to us that Mr. Doe is now selling less merchandise, but at a proper profit margin. Average sales for the last 5 months of 1947 were $25,840 and for the second period (6/30/48), $21,520.00.

Net Profit	2,723	10,724
Sales	264,570	129,117
Per Cent	1.03%	8.31%

Net profit on sales again shows a great improvement.

Net Profit	2,723	10,724
Net Worth—		
Business (at start)	16,686	17,887
Per Cent	16.32%	60.00%

Here we have the *earnings* on *net worth investment* and this likewise shows a remarkable increase because of two factors—favorable earnings vs. small net worth. As the second period is only six months, it follows that the *year's earnings* on his investment in the business would be 120%—very good!

Accts. Receivable.	18,079	19,655
Sales (Avge. Mo.)	25,840	21,520
Days	21	27

Here is shown the *collection period* and indicates the number of days sales which were on the books based on average monthly sales. Both 21 and 27 days are satisfactory.

Inventory	57,249	60,698
Sales (Avge. Mo.)	25,840	21,520
Days	66	85

Inventory to sales

We now come to the important feature of his set-up, and that is the relation that exists between inventory and average monthly sales. In the first period he had *66 days'* sales (on the average) in his warehouse, whereas now he has *85* which is equal to almost three months supply. If the average monthly sales were reduced by the gross profit factor of 22.35%, the number of days would be elevated to 109, which, of course, is all out of reason.

We have been hammering at him on this subject the last year or so, and it is pretty hard to say whether he is overstocked on certain standard items or whether he has such a large variety of items in his stock

that the total runs into money. In any event, this situation has got to be corrected.

Fixed Assets	5,782	6,745
Net Worth (in the business)	13,887	22,445
Per Cent	42%	30%

This shows the percentage of business *net worth* which is invested in *fixed assets,* and both 42% and 30% are too high from a percentage standpoint, but as the capital net worth is low, it naturally tends to elevate the percentage. It is our opinion that he does not have too much money tied up in fixed assets.

Total Debt (Business)	69,221	65,175
Net Worth (Business)	13,887	22,445
Per Cent	498%	290%

This is also another important ratio as it shows *creditors' financial interest* as compared to owner's *business* investment. In these figures we have obviously excluded his non-business assets, such as home residence, property in ——— and the business lot in ———. These percentages of 498% and 290% show that creditors are interested to the extent of about 5 to 1 and 3 to 1, which, of course, is not a healthy condition. A decided improvement, however.

Current Assets ..	76,458	80,343
Current Debt	54,221	50,175
Ratio	1.41	1.60

The "Current Position," and in arriving at these figures we have excluded the note for $15,000 which we understand is on a more or less fixed basis, and in any event does not mature until about the middle of next year. The amount of cash and accounts receivable at June 30 totals about $20,000 compared to total current liabilities of $50,000, so it is plain to be seen that $30,000 (or more than one month's sales) will have to be sold from inventory and the *money collected* before Mr. Doe would be "square with the board."

New Work Capital	22,237	30,168
Total Business Assets	83,106	87,620
Per Cent	27%	35%

This shows *liquidity* of total business assets, and the figures indicated of 27% and 35% are somewhat lower than the average of other concerns on whom we have statistics. They are an indication of the unfavorable current position above referred to.

HAPPY NEW YEAR!

Purchases from "Crown"	47,870	20,477
Total Cost of Sales	224,789	100,277
Per Cent Crown	21.30%	20.42%

This shows the percentage of purchases from "Crown" as compared to *total cost of sales* and the figures clearly show that the Doe Company is relying on our products to the extent of 20% in the servicing of their sales. If ⅕ (20%) of their sales is represented by our merchandise, which is readily saleable, it naturally follows that 80% is made up of a large number of other suppliers who are involved to a greater or less extent in his heavy inventory.

Inventory Turnover (times) ..	4.07	1.7

His *inventory turn-over* for the six month period ending 6/30/48 was 1.7 times which is equal to 3.4 times for 12 months as compared to 4.07 times for the 12 months period ending 12/30/47. This is clearly explained by reason of excessive inventories and its relation to cost of sales.

Operating Statement:

The figures presented for the six months ending 6/30/48 are, in our opinion, quite satisfactory as he made a net profit of $10,723 which amounts to 8.31% on sales. His various items of expense, such as salaries and wages, seem to be in line with other companies; in fact they are better than the national average as reported by the Wrapping Paper Trade Association.

Mr. Doe's Drawings:

We notice from the summary that he only withdrew $110.84 from the business during the last six months' period, and this is accounted for by the fact he had some money coming regularly to him either in the form of rents on his property or otherwise. In any event, it is clear to us that he is not, by any stretch of the imagination, attempting to "milk" the business in the form of heavy withdrawings.

(*Continued on page 26*)

Credit in the Construction Field

by JAMES P. Mc GROGAN
General Credit Mgr., Czerwiec Lumber Co., Chicago

SURELY, a long term investment in a new home is one of the least inflationary uses to which a man could put his money. With new housing so desperately needed throughout the country, one of the best ways to fight inflation would seem to be by making homes available to the public for a low down payment with an extended period to cover the balance. This was the intention of Regulation X, recently put in force by the government, which sets a stated amount as the down payment according to the valuation of the dwelling. Regulation X, however, is defeating itself in many areas as an anti-inflationary measure.

In such localities as Chicago, the home-purchaser is often forced to pay a larger amount down and shorter term payments than formerly, because he is unable to buy in the lowest price bracket. Of the 29,376 single dwelling units constructed during the ten months prior to October 1 in the Chicago area, for instance, not more than 18% to 20% are under the $10,000 price bracket. The greatest volume of building by far is in the $10,000 to $15,000 range.

Since the government has set up the new regulations we will see many big contractors building many more small homes. It is decidedly the minority of home-seekers who will be able to pay down the amount required for the purchase of homes over the $10,000 field. The construction of larger homes therefore becomes much more hazardous, unless they are built on order.

Watch the speculators

Homes built on order present no credit problem to the supplier, nor does apartment and industrial building, which is financed by insurance companies, mortgage firms or corporations. But of the building in this area, approximately 60% is speculative, and under the new regulations this percentage may increase. In this type of building, where the contractor has not sold the dwellings prior to construction, there arises the problem of extension of credit

SUPPLEMENT TO REGULATION X

Maximum Loan Value.—For the purposes of Regulation X, maximum loan values for all residential property, farm residences, and major additions and major improvements are prescribed as set forth in the following table. In the case of credit extended with respect to residential property or farm residences involving more than one structure, the maximum loan value may be applied separately with respect to each such structure or with respect to the entire property or all such residences, at the election of the Registrant.

If the value (determined as provided in section 2(*i*) of the regulation) is	The maximum loan value is
More than $2,500 but not more than $5,000	90% of the value
More than $5,000 but not more than $9,000	$4,500 plus 65% of excess of value over $5,000
More than $9,000 but not more than $15,000	$7,100 plus 60% of excess of value over $9,000
More than $15,000 but not more than $20,000	$10,700 plus 20% of excess of value over $15,000
Over $20,000	$11,700 plus 10% of excess of value over $20,000 but not less than 50% of value

to him by the suppliers. It is here that the credit departments of the supply firms must exercise the utmost caution and judgment.

In every state building supply firms are protected by a Mechanics' Lien Statute, although the terms vary in many states. This law enables the supplier to put a lien on any building constructed by a contractor who has failed to pay for any of the supplies or services which have gone into the erection or improvement of that building. If the contractor fails to pay, the final purchaser of the building is liable for any such debts. In far too many cases, it is the purchaser of a home who ultimately has to pay twice for it.

Education program is needed

The most needed device in the construction field is a means of educating the home purchaser as to the implications of this law. The Mechanics' Lien protects us, the suppliers, yes; but we hate to see a man who has had a home built, and paid the contractor in good faith, forced to pay again through his ignorance of the law. A short but thorough outline of this statute should be given to every prospective home-buyer, explaining it as it pertains to his liability to the contractor's suppliers.

He should be made to realize that if the contractor fails to pay for his hardware, surveying, concrete or lumber, he—the purchaser of the home—is liable for the bills. Such an outline should explain that, if he is to avoid such liability, he must, before paying the contractor, secure waivers for each of the supplies and services that have been used, and an affidavit from the contractor that these are the total and correct amounts and that all have been paid. The National Association of Home Builders and such local organizations as the Metropolitan Chicago Home Builders Association are doing an excellent job of assisting and educating the public, but still an amazing number of home-buyers suffer this type of loss each month. To be safe, no builder's contract should ever be completed without the advice of an attorney.

If completion of a contractor's buildings is delayed through no fault of his own, as by strikes or unusual weather conditions, the Mechanics' Lien Statute enables the supplying firms to protect their investment. However, extensions are sufficiently liberal, in Illinois and in most states, that the builder can be given every opportunity to complete his project within the contracted time. If the contractor has

(*Continued on page 31*)

REGULATION X

SECTION 4. EXTENSION OF CREDIT

(*a*) **Amount; Maturity; Amortization.**—Except as otherwise permitted by this regulation, no Registrant (any person engaged in extending real estate credit) shall, either in connection with a sale or otherwise:

(1) Extend real estate construction credit with respect to residential property (other than major additions or major improvements) if the amount of credit outstanding with respect to the property (including any credit exempt from, or not subject to the prohibitions of, this regulation) exceeds, or as a result of such extension of credit would exceed, the applicable maximum loan value of such property;

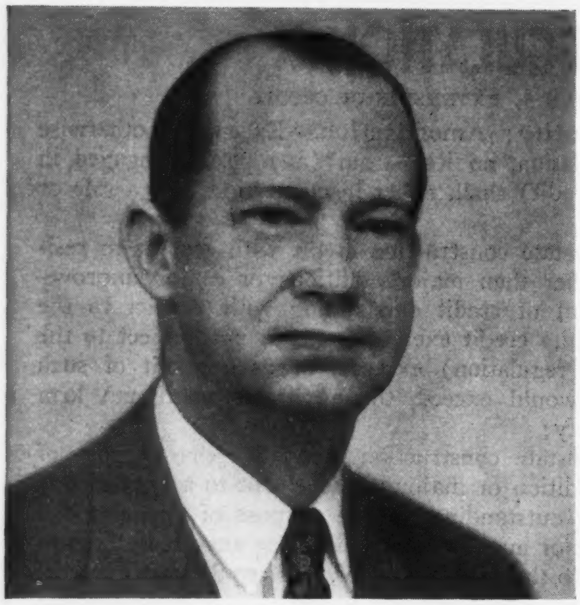
(2) Extend real estate construction credit for the purpose of financing a major addition or major improvement to a residence if the amount of credit outstanding for the purpose of financing the major addition or major improvement (including any credit exempt from, or not subject to the prohibitions of, this regulation) exceeds, or as a result of such extension of credit would exceed, the applicable maximum loan value of such major addition or major improvement;

(3) Extend real estate construction credit for the purpose of financing the construction of a residence on farm property if the amount of credit outstanding for the purpose of financing the construction of the residence (including any credit exempt from, or not subject to the prohibitions of, this regulation) exceeds, or as a result of such extension of credit would exceed, the applicable maximum loan value of such residence;

(4) Extend real estate construction credit if such credit would have a maturity which exceeds the applicable maximum maturity provisions, or would be repaid in any manner which does not conform with the applicable amortization provisions set forth in the Supplement to this regulation;

(5) Purchase, discount or lend on any credit instrument evidencing real estate construction credit which is subject to and not exempt from this regulation, unless the terms of such credit conformed with the provisions of the Supplement to this regulation when such credit was originally extended or conform with the provisions of the Supplement at the time of such purchase, discount or loan; but for the purposes of this paragraph credit shall be considered to be subject to the regulation even though extended by a person other than a Registrant;

(6) If the Registrant is acting as principal—sell, or transfer title to, residential property on which there is new construction (which is a residence or a major addition or major improvement to a residence) and with respect to which the vendee or transferee assumes, or takes such property subject to, indebtedness secured by a mortgage or other lien upon such property, if the amount of outstanding credit (including any credit exempt from, or not subject to the prohibitions of, this regulation) which was extended after the effective date of the regulation with respect to the property exceeds, or as a result of such sale or transfer would exceed, the applicable maximum loan value of such property, or if any outstanding real estate construction credit (subject to and not exempt from this regulation) with respect to such property does not conform with the provisions of this regulation and the Supplement thereto.



D. D. Kelly

Inter-Mountain Credit Association Member Is Winner of First Contest

The lure of fame—or fifty dollars—attracted a tremendous entrance for the first of the three letter-writing contests which this publication has been sponsoring. Each contest presents the credit manager with a problem which can only be solved by writing a letter and the winner is, obviously enough, the writer whose letter has the best chance of solving the problem and approaches it in the most tactful way.

The first problem, it will be remembered, was as follows:

You are a manufacturer in the East and you have a customer in a rural district in the West who is by no means "big business" but who has given you the best coverage in his area for many years. Relations between your company and this account have always been good and his payments have never given any cause for concern. He is one of the best-known men in his community and fancies himself as a business leader. He's getting on in years, and as he has grown older has become somewhat gruff and crotchety.

When his account suddenly shows up 30 days past due you don't worry particularly but just send out a duplicate statement. However, when he becomes 45 days past due, with no explanation, you check over your credit information to see if there is any clue in it which would explain this slowness. You cannot find any such clue. You order new reports. No clue there either. He is now 60 days past due. Write a letter to the gentleman. Use any approach you think best.

Entries on the whole were either exceptionally good or abysmally bad. Some contestants obviously had not even read the problem before sending in their work. Others had read the problem but not the rules. Some read neither! For instance, this first problem was so worded that it should have been obvious that here was an old established customer, doing good work for your house, who never gave you a moment's

THIS IS THE PRIZE LETTER

November 15, 1950

Dear Mr. Doe:

It is only natural that long years of association with a customer imbues us with a strong feeling of appreciation for his support and a genuine interest in his welfare.

You are one of these steady customers who are responsible for our success and to whom we feel we owe a debt which cannot be discharged simply by prompt and efficient handling of their orders. There is more to it than that, and therefore we welcome a chance to be of service whenever possible.

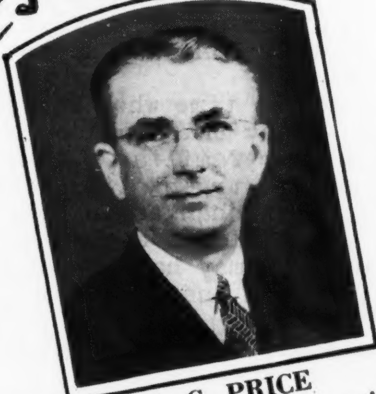
Your splendid paying record over the past years has definitely earned our gratitude, and the fact your account is now past-due for the first time is a matter of real concern to us. Not concern about getting paid--we have dealt with you too long for that--but concern that we are perhaps missing an opportunity of helping you with whatever problems have caused this condition.

Won't you please write us a frank explanation of the circumstances? Possibly we can be of some assistance--at least we would like to try--and we will feel truly complimented by such an expression of confidence.

Sincerely yours,
The XYZ Company
By <u>HOPEFUL HORACE</u>

Warm Up Your Frozen Assets with N. A. C. M.

"Approved" Collection Service



M. C. PRICE
Manager Credits & Accounting
The Sherwin-Williams Co.
Newark 1, N. J.

MR. T. D. OXFORD
Assistant Treasurer
General Shoe Corporation
Nashville 3, Tenn.

THE SHERWIN-WILLIAMS CO.
32 CENTRAL AVENUE
NEWARK 1, N. J.

December 21, 1950

Mr. A. J. Sutherland, President
National Association of Credit Men
New York, N.Y.

Dear Mr. Sutherland:

On several occasions we have had such good results from the "Moral Suasion" collection efforts of the Foreign Department of the National Association of Credit Men, that I feel I ought to mention it to you.

We have found the Association's collection service helpful and efficient.

We commend the Association service to any member—for either export or domestic problems.

Yours very truly,
M C Price
Mgr. Credit & Accounting

MCP/gkj

GENERAL SHOE CORPORATION
NASHVILLE 3, TENNESSEE, U. S. A.

To Members
NATIONAL ASSOCIATION OF CREDIT MEN

January 5, 1951

For some time I have felt very close to the aims and purposes of The National Association of Credit Men.

Aside from the fine personal contacts I have had with members in various parts of the country, I regard highly the ability and aggressiveness with which the Association personnel handles collections and adjustments. Was particularly impressed recently with the good handling of an adjustment case by the Dallas Association.

May you continue to grow in usefulness and service to all members.

Cordially yours,
T. D. Oxford
T. D. Oxford
Assistant Treasurer

• Ask About THE CREDIT MANAGERS' 15-Point Collection Program •

Use Collection Bureaus "Approved" by the

National Association of Credit Men

1 Park Avenue
New York 16, N. Y.

33 South Clark Street
Chicago 3, Illinois

Second Place

October 26, 1950

Mr. Gruff Crochety,
Rural District
West, U.S.A.

Dear Mr. Crochety:

Too often we take a valued account for granted--too often we have pleasant associations for many years only to forget a simple phrase 'thank you.'

We do appreciate the opportunity of having served you and we do say 'thank you.' But now we are somewhat concerned. For the first time in our long association our statements have remained unanswered for the past 60 days.

Have we in some way disappointed you in service or quality? Is there some difficulty wherein we may be of some assistance?

Whatever it may be--we do hope we shall hear from you by return mail.

'Thank you.'

Yours very truly,
J. CONTESTANT
CREDIT MGR.

c/w

Third Place

October 30, 1950

Over the years the opportunities for my department to be of any particular assistance to you have been few and far between. On the contrary, you have made it easy for us, and my company has enjoyed a good volume of business from you year after year. All of us appreciate this long and happy association with you.

Perhaps now is the time when we can be of some help--I say this because we have not seen your familiar checks since July. These are trying times for all businessmen, with changes in conditions taking place almost every day and, like us, you may have felt the effect of these in one way or other.

I should consider it a real favor if you would let me know soon whether we can be helpful in your effort to return your account to its usual current condition.

Cordially yours,
A. B. Allen

ABA:ef

Fourth Place

November 10, 1950

Dear Mr. ________:

When an account as strong and valuable as yours unexpectedly appears on an over-due list, we might pass it by without a second thought, assuming that for some very good reason a little extra time has seemed desirable.

We could perfectly well do that in this case. Instead, we have chosen to write to you because we feel that the condition of the account indicates the possibility of some error or misunderstanding. This might be something as simple as our statement or your check having gone astray. It might be something as serious as our having failed you in some way which we have not been able to discover from a review of our order and shipment records.

If there is any sort of a question along these lines, we ask only that you give us the opportunity of correcting it promptly, to your satisfaction. We very much want to protect a pleasant and long-established business relationship which has been, we feel sure, advantageous to you as well as to ourselves.

We hope that you feel you can count on our cooperation to the fullest possible extent, so whatever difficulty there may be on the account, won't you please write us about it? Or if your records now show the account to be in order, and your check is not already in process, would you assist us in our budgeting by advising us as to when we may look for a remittance from you.

Yours very truly
F. W. Atherton

worry in long years of selling your products for you and whom you didn't want to offend at all costs. So what happens? One entry, in so many words, starts out "See here, you old crumb!" Several others, noting that the customer was a westerner, addressed their letters to New Hampshire!

One feature of the contest which the Associate Editor found most distressing was that about 55% of the entries were addressed to a delinquent debtor named Jones. One, in fact, piling Pelion on Ossa, addressed his communication to one Jonas E. Leslie. The Associate Editor, however, had no connection with the judging.

Enough of the contest itself. The important thing is the name of the winner and that is:

D. D. Kelly,
The Galigher Company,
Salt Lake City, Utah.

Those who did not win, however, need by no means be ashamed, for the great majority of the letters

were unusually good and the judges had a tough time picking the best.

The second place winner was Jerome D. Wise, Lewis-Westco & Co., San Francisco. Third place went to C. M. Ferguson, General Electric Company, Cleveland, and fourth to William A. Frost, William Carter Company, Needham Heights, Mass., a member of the Boston Association.

Getting back to the contest generally, one of the amusing aspects was the ingenuity displayed in choosing *noms de plume.* Just for example here are a few:

I. hadunit
Light A. Proach
Hopeful Horace (the winner)
M. T. Head Mfg. Co.
U. O. Me
C. R. Editor
Raymey Fasolatedo (two, oddly enough) and many others.

What made this contest really click was the very real and willing cooperation of the members of the National Publications Committee who probably didn't realize what they were in for when they accepted the appointment. Judging these letters was a chore. Make no mistake about that. The chore was undertaken cheerfully and carried out most competent—and speedily—and the gratitude of the editors to them is great, all seven of them.

The results of the second contest will be announced in the February issue of CREDIT AND FINANCIAL MANAGEMENT.

•

D. D. Kelly has been with the Galigher Company for 23 years, having joined the company in 1927 as a warehouseman and warehouse office clerk. He also doubled as receiving and shipping clerk. Having had extensive accounting training he was transferred to the office in 1932 as inventory control clerk and subsequently held positions as house salesman, price clerk, bookkeeper, accountant and cost accountant.

In 1935 he was appointed chief accountant and was elected assistant secretary and assistant treasurer in 1940 with the additional duties of assistant credit manager. In 1944 he became secretary, treasurer and credit manager and was elected to the board of directors, all of which functions he performs at the present time.

Here we have a financial statement;

What does it *mean*?

by HELEN M. SOMMERS

Credit Manager, Trojan Hosiery Mills, Indianapolis

A CREDIT analyst who is up on his semantics would say that the first thing to do in analyzing a financial statement is to attempt to extensionalize it.

Extensionalizing, meaning literally *pointing to,* in this sense has to do with relating symbols (words, figures, etc.) to the objective or physical things they symbolize. The way to extensionalize the word *chair* is to point to a particular chair. A teacher of a class of beginners in a foreign language introduces elementary words in this way. *"Das Buch,"* she says, pointing at the same time to the book.

The vocal noises we make which we call words, and the scrawls we make on paper which we call written words and figures are symbols by means of which we try to communicate our ideas, observations, experiences, evaluations, etc., to each other. A financial statement can be nothing more than a highly specialized selection of such symbols. By words, figures, and dollar signs, the maker of the statement attempts to express for the benefit of others his private calculations, judgments, and estimates of the economic values to which a business holds title (assets) and of the claims which others have upon it (liabilities and capital). But the symbols, en route from the maker to the reader of the statement, undergo more or less change in signification. This is due to some peculiarities inherent in the mechanism of using symbols for communication:

Commonly used symbols might be thought to symbolize the same things to everybody from the very fact that they *are* used by everybody. But symbols in the ultimate analysis indicate private and individual experiences, and private and individual experiences are unique and cannot be communicated per se. You cannot, for example, communicate your toothache to another. You can only talk *about it* in symbols (words) which you hope will help the person to whom you are complaining recall his own experiences of similar pain. If he had never experienced pain you would be completely stymied.

One word does infinite duty

A single word does multiple—yes, *infinite*—duty as a symbol. We use our words with what we might call "spread," and necessarily so. Each one labels many things that appear similar in certain respects, but which all differ from each other in other respects. The same word "snowflake" labels an infinity of crystallized vapor forms, no two alike. If I say "chair" I may be thinking of a particular chair in my home—a dining-room chair with four wobbly legs, a creaking back and a somewhat uncertain seat. But if I do not qualify the word "chair" with some description of this kind you may, upon hearing the word "chair," think of your favorite easy chair that is molded to the exact contour of your back when you lounge on your fifth lowest vertebra and prop your feet on an ottoman.

Many times it doesn't make any difference whether we are thinking about my chair in the dining room or your chair in the living room when we use the word "chair." But other times it does. If I make the highly enlightening statement, "A chair is made to sit on," you could think comfortably of your chair and I could think uncomfortably of mine. But if I call the Goodwill Industries or the Salvation Army and ask them to come and take an old chair away, I had better be pretty specific. Not only will I tell them when and where to get it, but I will be on hand at the agreed time to *point out* the particular chair, unwilling to risk to the vagaries of the English language as it is spoken and understood the other old chairs I will have to live with for the next ten years. I will be on hand to *extensionalize* the particular chair I want to give them.

To get someone to extensionalize his words, figures, or other symbols so that we know more precisely what he is talking about, we try to get him to *point out* the particular object, event, etc., to which his symbols refer. And while he will not always be able to point in a literal, physical sense, we can, by skillful and persistent questions, usually get him to point with more particularizing words. General terms can be systematically narrowed down to exclude more and more and refer to less and less (i.e. to approach the particular) by questions like: "What items do you include under that heading?" "Give me some examples." "To what precisely does that refer?" "At what date?" "At what place?" "In what particulars does it differ from the common characteristics of other things called by the same name?" *"What Republican, when?"*

Financial statements, expressed as they are in highly generalized terms, have to be particularized by similar technique if we hope to learn

with any precision what values its symbols stand for.

Critical analyst extensionalizes

Now many a credit man who never heard of semantics nevertheless extensionalizes symbols to some degree when he analyzes a financial statement. That is, of course, if he goes about his analysis critically. Others do nothing of the sort. These are the boys who fly to their ratios on the supposition that the words in front of the figures "mean what they say," i.e., what the "analyst" assumes them to mean. Accounts receivable are accounts receivable and that's that. A few quick comparisons of the figures and lo! the credit decision is born. Figures are related to other figures but little attempt is made to relate them first to *things*—to learn precisely what the figures were meant to represent, and to determine whether they do a faithful job of representation.

This kind of approach is like that of a lecturer I once heard who was giving a practical demonstration of financial statement analysis. Marooned on an island of figures, he was busy making glib comparisons of various items with one he called *tangible net worth,* when a fellow credit-man who was more clear-sighted than polite spoke out from the audience to suggest that the net worth as stated might be a bit watery with a $50,000 item of good-will contributing to it from the asset side of the statement, and that maybe it might be a good idea for the lecturer to drain off the excess liquid from his so-called tangible net worth before he began tossing it about so freely!

To the "analyst" who takes his figures as they come and no questions asked, there can be only one admonition: The more implicitly you trust figures, the greater the lies they will tell you.

But it is not the figures that are to blame. It is we who make them lie to us.

Usually there is nothing wrong

with figures as such. The trouble comes when we put words with them—and *we always put words with them* in everyday life. Outside a math class we don't talk about 2, 8, or 15; we talk about 2, 8, or 15 *somethings.* Similar things are added to make a total which we call by a general name and then we promptly forget that all of the items so added are different in some respect and that those differences sometimes make a big difference to us.

A farmer tells you he has fifty chickens. His statement is correct. But you may make that statement lie to you if you assume that those fifty chickens are, like the two you just saw in the barnyard, fifty friers or fifty young laying hens. His fifty chickens may be twenty pullets, ten broilers, ten baby chicks, three setting hens, two roosters, two bantam pets, etc. They are all chickens, aren't they?

Or he tells you he has six horses. In addition to Betty and Chesty, the four-year-old work team, there's old Bill that is just kept on the payroll for the children to have fun with. Then there's Betty's colt and (Farmer Jones has been enjoying a little semantic joke at your expense) two wooden "horses" that he uses for sawing up his logs!

Silly? Yes, but only an exaggerated example of what so frequently occurs in bookkeeping procedure or in the preparation of a financial statement when items almost as remotely related get lumped together under the same heading because they can be called by the same name.

"Receivables"

An *account receivable* by fairly well standardized accounting practice is construed to mean a collectible amount due a business from a customer for goods sold him on credit terms and evidenced by a book account to which the business holds title. But by unorthodox bookkeeping or accounting procedures (and how can you assume without question that your customer's bookkeeper is orthodox in this respect?) it could be construed to mean any amount that is "receivable" or due to the business, and so it might include advances to employees, loans to officers, amounts due from affiliates for various reasons, debit balances against vendors for returned goods, bankrupt accounts, amounts due from factors, etc.

If we could look over the shoulder of a bookkeeper or an accountant every day for a month, or better still if we could do a month's bookkeeping and a year-end closing we could become much more acutely aware of the semantic problems involved in the work leading up to and through the preparation of a balance sheet and operating statement.

A bookkeeper has to make day-to-day decisions (and they are probably not made with day-to-day consistency) involving the meanings of the *words* in the headings under which he classifies his entries. Will he classify the cost of a sales manager's trip to a packaging show as traveling expense or sales promotion expense? Will he charge the cost of a wire asking for a rush credit report to credit information expense or telephone and telegraph? Are cash boxes and pencil sharpeners to be classified as office equipment or office expense? How big does such an item have to be, how much should it cost, and how long should it be expected to last before it can be classed as a capital asset?

A figure is only an opinion

Now you, a credit manager, have your own answers to these questions. But remember that you are looking over the shoulder of a bookkeeper as he makes his decisions. Bookkeeper$_1$ is not bookkeeper$_2$, so their decisions will not be the same about the same problems. Indeed, bookkeeper$_1$'s decisions today about a problem may not be consistent with the decision he made last week about a similar problem.

An accountant lays out a system of account classifications for a given business. But in the process of fitting the fluid activities of any going business into the rigid mold of such a layout adaptations must be made and he, too, must make frequent decisions involving the interpretation and application of his own terms.

Then there are cases like the one which was reported recently in the press when the Federal Tax Board ruled that the wedding expenses of the daughter of an executive could not, for tax purposes, be considered traveling and entertainment expense on his company's books even though most of the company's important customers had attended the wedding! Such classifications are no more bookkeeper's decisions. They are decisions made for him. And since decisions that are made for bookkeepers involve more than nominal sums and usually affect the profit-showing in essential ways, it is even more important for us to interpret financial statements with the full awareness that company executives in charge of accounting policies make their share of decisions as to what a thing is to be called. And usually with far-reaching effect.

Figures should raise questions

These observations are by no means intended to discourage the use of financial statements in credit analysis. They are meant to discourage the uncritical and unquestioning acceptance of "figures" wherever they are found and particularly as they group themselves under various headings in the thousand-and-one grades and specimens of reports we roughly call by the same name "financial statement."

For financial statement$_1$ is not financial statement$_2$ and financial statement$_2$ is not financial statement$_3$, etc. They differ in many respects, among which are four that we should be constantly aware of as we interpret any financial statement for credit purposes:

(1) Differences as to what kinds of items are included under the same label, such as "accounts receivable."

(2) Differences as to the methods used for determining the values of such items; and in the standards of comparison used for establishing such values.

(3) Differences in completeness of coverage resulting from differences in degree of thoroughness of the accounting, bookkeeping or estimating procedure.

(4) Differences in degree of arithmetical accuracy resulting from differing degrees of skill exercised by the individuals preparing the statements.

All of these differences, in fact, come about because financial statements are prepared by different individuals at different times and about different businesses.

Never completely accurate

An estimated statement given verbally off the cuff by a merchant who is unaided by any prodding or reminding would probably be less complete and less accurately valued than one elicited by the systematic questioning of an experienced investigator bent on pinning his man down to facts. Neither of those statements would be as likely to reflect as accurate and complete evaluation of all assets and liabilities as one prepared by a competent bookkeeper from actual books of account. And certainly one prepared and certified by a qualified C.P.A. would ordinarily merit even greater confidence. Yet even C.P.A.'s differ in method and disagree on points of theory and practice, such as, for example, the basis for evaluating inventories, for evaluating plant and other fixed assets, for establishing valuation reserves; the grouping of accounts when condensing a balance sheet; the classification of certain assets as current or non-current, etc.

Certainly an analyst who approaches the examination of a financial statement with any but the most critical, questioning, fact-finding attitude exposes himself to the possibility of serious errors in credit judgment. It is dangerous to accept even well-prepared statements as Absolute Truth, and qualified accountants themselves will be quick to assure you that a balance-sheet at best must necessarily carry some approximations, some estimates resulting from personal judgments, and probably some inconsistencies of evaluation resulting from time-honored procedures and accounting conventions.

Extensional Questions

EXTENSIONAL analysis of a statement, then, involves boring through the exterior, looking behind the figures, taking into account the processes by which they might have been accumulated, investigating the differences which might characterize the many items that have been lumped together under each descriptive term.

The general tenor of such extensional questions will usually be:

Where? (Cash which an export-import business has to its credit in

Venezuela is not the same as cash in the First National Bank of Exville, U.S.A.)

When? (Assets and liabilities listed on a financial statement purport to be those in existence on statement date. But their *values* on a single statement are usually expressed in terms of different dates. The "asset" may have long ceased to have any value at all. Again, was it valued at cost as of date of purchase; replacement value as of statement date; estimated market value as of statement date; predicted market value at probable date of sale several months after statement date, etc.?)

Whodunit? (Who made this statement? Who signed it? Who certified it? Who estimated it? Who estimated the market value of this inventory? Who predicted the need for anticipating mark-downs on this inventory?)

By what process? (By what procedure were receivables verified? How were these reserves calculated? Was inventory determined by physical count?)

What hidden differences of important credit significance lurk behind these terms? Here we ask questions that root specifically for differences that we have found in past investigations; or that we know that other analysts have found. (Did you include in your inventory any goods that you were holding on consignment? Has any portion of these receivables been assigned as security for a loan, or been sold or title otherwise transferred?) But we go further than that. We investigate possibilities which suggest themselves to us out of the supplementary information which we have already gathered about the way our customer's business has been functioning. For a financial statement, if approached scientifically, *must be studied in the context of the business-setting in which it occurred.*

Study statements in context

Any word, any symbol or set of symbols acquires most of its meaning from the context in which it is found. If this were not so we would have a sorry time indeed trying to communicate our ideas, since the same symbol, as we have seen, represents many things. Doubtless you have had the unpleasant experience of being quoted out of context: two or three words lifted out of the sentence in which you said them, or a whole sentence repeated without reference to the situation in which you said it. Out in the cold, cruel world, shorn of their legitimate context, your poor little words were made to stand alone and mean almost anything except what they meant when you used them.

Financial statements are just as susceptible to misinterpretation out of context as any other set of symbols. Yet I have seen them "analyzed," with little reference to the kind of business involved, much less the details of its operations. This is pure folly. It is ridiculous to try to extract the meaning of a financial statement if we isolate it from the activities and operations that gave rise to it. Every bit of information that we uncover about how our customer conducts his business should be kept in mind as we evaluate and interpret each item on the statement. And the richer the supply of such supplementary material, the more questions of an extensional character will occur to us as we study the statement.

If we know, for example, that the furniture store whose financial statement we are studying did 75% of its fiscal sales volume on installment terms averaging ten months duration, we will examine accounts receivable for age, we will be interested in the difference between gross and net sales in order to learn the extent of repossessions and thus get a line on the firm's credit policies; and we will look for an item of deferred income on the liability side of the statement as an indication that this firm follows conservative accounting policies with reference to its installment business.

So the information to be yielded by the questions developed in the November and December chapters, titled *Is There Madness in His Methods?*, should serve not only its primary purpose of evaluating methods but also provide a rich source of reference for stimulating important extensional questions about that customer's financial statements.

"Lest we forget"

The questions that follow undertake a critical and extensional approach to financial statements from a credit viewpoint. Answers to them will furnish us with data for squaring its stated values with what they represent, and for paring, adjusting and arranging them before we can further interpret their credit meaning by ratio and comparative analysis. In check-list form it includes many "lest-we-forget" points—those points which we all check at one time or another but which, because of their very familiarity, we may forget in a particular instance—as well as those embracing in some degree a new approach or one which might not ordinarily be considered.

Questions here, as in previous chapters, are as far as possible asked in terms of the past in order to keep uppermost in our minds the so-necessary awareness that facts shown on a financial statement have already changed by the time it is studied.

Acceptability of Statements

THE FIRST set of questions will help you to determine the degree of acceptability of the statement on grounds of identity of ownership, the good faith of the maker, his competence, the arithmetical accuracy of the statement, efficiency of methods used in preparing it, etc.:

Was the statement signed by the same proprietor, partnership or corporation as that with which your credit arrangements are contemplated?

(Be alert for similarities of name, deliberate or coincidental; for statements of related or affiliated companies whose names are similar; and for the possibility that there have been recent changes in ownership and that you have a statement and report on the previous owner.)

Was the statement signed by the individual who owned the business, or, if a partnership, by one or both of the partners, or, if a corporation by one of its officers properly identified as such. Was the statement dated?

Have the principals who signed the statement satisfactorily passed those questions raised in the September chapter dealing with evidence of fraudulent intent or past questionable history?

(If a credit man begins his credit analysis, as some do, by focusing his first attention on the financial statement—a cart-before-horse procedure—he should at least pass this hurdle of the probable

(Continued on page 31)

BOOKS

Reviewed by

R. G. Tobin and Carl B. Everberg

Practical Bank Credit 2nd edition, Foulke & Prochnow, Prentice-Hall, Inc., 70 Fifth Ave., New York, N. Y.; Price $10.00.

This is a revision of the book published in 1939 by these writers which was received with high praise among the banking profession.

This volume covers such important subjects as the operations and function of a bank credit department; sources of credit information; interpretation of financial statements; and important considerations in making bank loans. Roy A Foulke is vice president of Dun & Bradstreet, Inc., and has been a leader in the credit research operations of that company for a number of years. Herbert V. Prochnow is vice president of The First National Bank of Chicago and a member of the Committee on Administration of the Graduate School of Credit and Financial Management. While *Practical Bank Credit* was designed especially for use by bank officers, this volume might well find a useful place in the business library of corporate officers because of the wide range of information it covers.—R. G. T.

Corporate Treasurer's and Controller's Handbook, Prentice-Hall, Inc., 70 Fifth Ave., New York, N.Y.; Price $12.50.

This book, containing 1277 pages, is a collection of thirty-two chapters, each one written by a specialist in the business field. The subjects were assigned and the copy for the book was arranged and edited by Lillian Doris, an author of several books on corporate requirements, such as minutes, resolutions, etc.

The subjects treated in this volume range from a chapter on the duties and functions of a treasurer and controller and closing with three chapters on Insurance written by three different authorities.

William J. Schultz, Ph.D., Professor of Business Administration, School of Business and Civic Administration, College of the City of New York, has written a chapter on Credits and Collections, which like other chapters in the book sets forth the responsibility of the treasurer or controller, in this case as they apply to credit and collection policies and credit department operations.

This volume should prove a handy and workable guide for all corporate officers who are charged with the functions of the finance and accounting operations of their business. While the chapters do not give full and exhaustive presentation of the various subjects, they do provide important outlines of information as a basis for further study. —R. G. T.

An Introduction to Criminalistics. O'Hara and Osterburg. Macmillan, N. Y. $10.00.

In the midst of a world of destructive forces, books of a constructive nature become heartening. This book treats of the application of the physical sciences to the detection of crime. Supposedly a book of this sort may not be of any interest particularly, to credit men or financial executives. Yet, frauds and crimes are often practised on business; therefore, at least a portion of the book is relevant to business.

The book reminds one that the practice of law in modern times reaches out and appropriates the sciences in the matter of proof. The law makes uses of scientific pursuits, and there will be less fumbling and more reliable expert evidence and testimony as it reaches out for assistance from science.

The chapter on Document Examination, having to do amongst other things with alterations of written instruments, touches the universe of discourse of the business executive. Alterations in checks or other instruments may, for example, be proved by comparing the type of ink in the undisputed original writing with that of the alleged alteration—chemical examination may show two different types of ink. The age of inks is capable of scientific determination; and this may help show whether the writing of a document is as old as the purported date it bears. Where books of accounts or business entries are in issue it can be determined whether the entries were all made at the same time or over a period of time as would be natural in the course of Business.—C. B. E.

Massachusetts Ruling Protects Information

In Massachusetts a man can feel more safe about turning information over to one who may take advantage of it. In *Warsofsky v. Sherman,* 93 N. E. 2d. 612 (July, 1950) the facts were as follows: Plaintiff, in seeking a loan from a co-operative bank, outlined the conditions under which he could acquire certain valuable property on exceptionally favorable terms. The official of the bank, with whom he was directly dealing, capitalizing on this information, went out and bought the property himself and took title in the name of his wife. In a suit to impress the property with a trust in favor of the plaintiff, the Supreme Court said: "If the information furnished by the applicant for a loan is to be seized upon immediately by the bank official to whom it is given and if by virtue of the information he can purchase the property behind the back of the applicant, then public confidence in such institutions will be seriously impaired if not utterly destroyed." . . . The bank official "is prohibited from deriving any personal gain at the expense of the applicant or to the detriment of the bank."

This case is unusual in that heretofore trusts have been impressed in cases of this sort generally, only where conventional trust and confidence relations exist, such as: attorney and client, trustee and beneficiary, physician and patient, business partners, employer and employee.—C. B. E.

LEGAL NEWS AND NOTES

Reviewed by Carl B. Everberg,

Assistant Professor of Law, Boston University

Toulmin's *Anti-Trust Laws,* published by the W. H. Anderson Company, Cincinnati (Fifth Volume).

This volume just out (1040 pp.), more than any of the previous volumes, treats on the problems of various associations of business men, professional men's associations, trade associations, cooperatives, exchanges, as they may have impact with the anti-trust laws.

In very recent years a few famous cases have helped to crystallize the views of the U. S. Supreme Court on these matters. One of these was *United States v. National Association of Real Estate Boards,* 84 F. Supp. 802, the trial court being reversed in part, and affirmed in part by U. S. Supreme Court, ——— U. S. ———. The Government had charged the Washington, D. C. Board with fixing real estate brokerage commissions to be charged by real estate brokers and the National Association having encouraged the Washington Board to do so. The trial court, recognizing that fundamentally price-fixing is *per se* illegal, yet as under the Clayton Act labor of a human being is not commodity or article of commerce, held that such services did not come under violations of the Sherman anti-trust Act. The Real Estate Board was likened to labor union of real estate brokers. In May, 1950 the Supreme Court reversed this portion of the finding of the trial court and held that the fixing of real estate brokerage fees is illegal, and that the exemption of the Clayton Act does not give exemption to all personal services.

Doctors too!

Another important and interesting case was *United States v. American Medical Association,* 110 F. (2d) 703. Here the American Medical Association, the Medical Society of the District of Columbia and others, were tried for conspiracy to restrain trade in violation of the Sherman Act. This suit was based on the allegations that the Association attempted to suppress outside competition by boycotting certain doctors in Washington hospitals who were employed by a cooperative "Group Health" organization in the District of Columbia. This latter group provided medical service to members in exchange of the payment of dues. The Supreme Court held that the medical profession could not legally effectuate such restraints as those charged. They made this decision without passing on the question as to whether a physician's practice constitutes trade under the Sherman Act. *American Medical Assn. v. United States,* 317 U. S. 519. It did not matter—to the Supreme Court the activities of the Medical Society fell within the acts contemplated by Congress in passing the Sherman Act.

On the other hand, in the case of *United States v. American Federation of Musicians,* 47 F. Supp. 304, affirmed without opinion, 318 U. S. 741, where the charges were that a union had refused to permit its members to be hired by manufacturers of phonograph records, it was held that the court did not have jurisdiction because it was a labor dispute and therefore came within the immunity in the provisions of the Clayton and Norris - La Guardia Acts.

Trade association problems

Trade associations may come within the proscriptions of the anti-trust laws. While trade associations serve a useful purpose in the economic life, as author Toulmin says: "When the association proceeds into the field of standardization, cooperative advertising, field analysis, and the collection and dissemination of statistics as to prices, credit ratings and quotas, it begins to invade dangerous ground."

There are many functions of trade associations which are appreciated by the Government. They provide assistance to the Government as sources of information concerning an industry. They frequently publicize to the various industries, legislative enactments and administrative orders; and it is considered legal for an industry to be represented by its association in dealing with Government and with labor, with trade and consumer groups.

Some of the activities which are legal and those which are illegal are clearly determined by various decisions. However, there is an area between, where legality must be determined by the circumstances in each case. If there is a standardization, express or implied, with regard to quantity and trade discounts, credit terms, customer classifications, price guarantees, maintenance of manufacturer-suggested resale prices, purchase of stocks likely to depress the market, the use of statistics to establish a level of minimum prices and indication of future prices, establishment of quotas, and similar things, there is a close approach to, if not an entry in, dangerous territory.

Great care must be exercised in the use and handling of statistical information. On the matter of credit information, the criterion seems to be as to whether it tends to an agreement on the part of member-wholesalers not to sell certain delinquent debtors. Information which is calculated to protect members against dishonest or irresponsible dealers prevents fraud and is a worthy thing. The dissemination of credit information appears to have been, throughout the history of the U. S. Supreme Court the least offensive activity of an association with regard to anti-trust laws. The more serious infractions are those functions of trade associations which fix prices, which boycott persons who do not keep in line with various policies. Agreements not to buy products from one not a member of an association are offensive. If credit information is passed along to members of an association without recommendation, or threat of coercion or boycott there is perhaps no thing illegal. But if the information is used to coerce the payment of debts, "a different question may arise." The text and foot-notes, beginning p. 402 are up-to-date and comprehensive.

The Ideal Financial Policy

by JOHN C. HAJDUK
Credit Manager, Victor Chemical Works, Chicago

WHAT is the ideal basic financial policy? In my opinion there are three, provided you will agree with me that keeping inventories and receivables turning actively is simply a matter of efficient management and not actually a matter of basic policy.

The first of the three fundamentals, which in my opinion are most important has to do with fixed assets and may be stated like this:

"The net fixed assets of a company should be in proper relationship to its tangible net worth."

No best ratio

Each of you is asking what this relationship should be. There is no specific answer to the question. At the one end you have the jobbers and at the other the manufacturers. The former may not require more than 5% or 10%, assuming they rent the premises, the latter may have as much as 65% of their tangible net worth invested in capital assets. The violation of this fundamental policy is seen when a company has invested too large a portion of its capital in fixed assets, thus tending to absorb the liquid capital which should be utilized for financing the day to day operations of the business. Furthermore, an excessive investment in fixed assets tends to build up productive capacity and its attendant expenses, thus raising the break even point to a level that cannot be maintained if sales drop off. For the moment I am going to leave this point and come back to it later.

THE second major fundamental has to do with working capital and can be expressed thus:

"The working capital of an enterprise should be in proper relation to sales."

What does this mean? The answer can be provided with a couple of simple and somewhat obvious statements. If a man has $5,000 working capital, he can act as jobber in a small community, and on any large shipments will have the chemical factory bill his customers and credit him with a commission, but he would be foolish to extend open account himself and take the risk of any one customer going bankrupt, thus wiping out his entire investment. In other words, there is a relationship between the amount of working capital available to a business concern and the amount of business that it can safely transact with that capital.

Conditions vary requirements

What should the relationship be? Again there is no general categorical answer. When goods are abundant and the jobber not too far away from the chemical manufacturer and general business conditions are good, he can count on a rapid turnover of this inventory, but if crops have failed or strikes have materially affected the profits of his customers, this will affect his calculations. These remarks apply with equal force when selling a manufacturer, but here one must take into consideration the length of time normally required to process the purchased material and ship it out as a new product. In the case of the jobber it may mean that he can handle comfortably an annual sales volume of $10.00 for every dollar of working capital while that of the factory the annual sales may run from $3.00 to $6.00 for each dollar of working capital.

THE violation of this second major fundamental is found when a company transacts a larger sales volume than its working capital will support comfortably. When sales increase this invariably means larger inventories and receivables are carried; heavier forward commitments are necessary; usually more employees are necessary to sell the output, to manufacture it and to handle internal details of the business. Unless working capital is increased in line with sales, the stresses become greater and the company becomes vulnerable to any unexpected unfavorable developments.

Any firm that overtrades is very much in the same position as a driver of an automobile. We will probably agree that a safe rate on

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This is the text of an address delivered before the Chemical and Dye Industry Group meeting during the 54th annual Credit Congress.

a straight open road in the country is 45 miles an hour. At that speed the driver has adequate control over his car, he can stop quickly or change direction quickly enough to avoid an accident. But if he increases his speed to 75 miles an hour he may still have adequate control provided nothing unfavorable happens. If, however, another car appears suddenly directly ahead from a side road, the first driver may not have time to slacken his speed or to change direction quickly enough to avoid a serious accident. The same is true of a concern turning its current assets at too rapid a pace.

Over expansion of plant

Now to return to the first fundamental which, you will recall, was laid aside temporarily. How often we have seen companies build up their plant investment to handle a volume which seemed readily available; the management was so absorbed in potentially larger profits from expanded sales volume that they considered effects only upon their profit and loss accounts and not on their balance sheet. When the plant expansion was completed they found that the fixed assets had to a large extent absorbed their working capital. Many managements would be saved if when contemplating a material expansion in fixed assets, they would prepare a balance sheet giving effect to the proposed expansion program.

THE third fundamental concerns inventories and may be stated in these words:

"A company's investment in inventories should be kept within its working capital."

What do we mean? We mean that inventories generally equal around 60% of the working capital. Inventories can be built up considerably from this usual 60% level without jeopardizing the essential soundness of the company, but the danger point arises when it equals 100% of the working capital. Above 100% the enterprise becomes vulnerable no matter how actively its inventories are turning. While wide variations are found in the relationship of fixed assets to tangible net worth or in the relationship of sales to working capital we find that in practically every line of industry, in which inventory is a significant factor, the inventories, with the exception of a few industries such as retail drugs, shoes and wholesale grocers, are equivalent to approximately 60% of the working capital.

The exception to this rule was represented in such cases as in 1939 when war broke out and the American business man, realizing we might be in the war soon, naturally began to build up his inventories to take care of that contingency knowing that he would be expected to provide supplies to the allies.

Three fundamentals

IF SPACE permitted this subject could be developed more fully with case histories, but in the confines of the allotted space allow me to sum up these 3 fundamentals:

1—Keeping fixed assets in line with net worth;

2—Keeping working capital in line with sales; and

3—Keeping inventories less than 100% of working capital are in my opinion the basic ones which management must observe if an enterprise is to maintain a sound financial condition.

Of course there are other relationships which we credit men regard as important. For example, we don't like to see excessive indebtedness or too low a current ratio, but I think you will invariably find that an excessive debt or too low a current ratio is the result and not the cause. It is the result of a violation of one of these 3 principles or of some combination of these factors. With a thorough understanding of the principles involved we can understand and interpret financial statements more effectively and we can appraise more intelligently the financial policies which management, knowingly or unknowingly, is following.

Special Credit Department Service

(*Continued from page 11*)

His capital as shown by the above figures has increased about $8,000 since December 31, which means that he has retained a large portion of his profits.

Non-business Assets:

His balance sheet shows a net equity of $14,800 in non-business property composed of—

Residence	$ 3,800
Business lot	5,500
House and land *clear*	5,500
Total	$14,800

Mr. Doe states that he is now seriously attempting to get rid of the property in ——— and put the money to work in the business. He also states business lot sale is progressing, but so far without success.

Cash Discounts:

In the matter of discounts he *earned* $638.00 during the last 6 months, which is equal to $\frac{6}{10}$ths of one per cent on purchases. This is an indication that he took advantage of most special cash discounts—say from 2% to 5%.

Regarding sales discounts he *allowed* $955.00 or .74% on sales, which is about normal.

Conclusion:

The above analysis clearly shows that the Doe Company are *under financed* and thus short of working capital with which to meet all of their obligations as they fall due. Heavy inventory is responsible for this. It would seem the solution to his problem would be to prosecute vigorously the reduction of inventory and the sale of non-business property and turn them into cash, or take in a partner who has $15/25,000 to invest.

Regarding the note amounting to $15,000, this bears 8% interest ($100 a month) and it is not likely that holder would want to forfeit this nice income and convert that amount of money to a partnership share in the business even if Mr. Doe would be interested.

His accounts receivable are not mortgaged and his open bank loan has been reduced to $2,400 from $5,000.

All angles considered, his financial position shows an improvement over that existing at 12/31/47, and it appears from a price mark-up and gross and net profit standpoint that he is now on the right track.

The C. P. A. as a Source of
CREDIT DATA VERIFICATION

By KERMIT J. BERYLSON
Member of the Firm of Joseph S. Herbert & Company,
Certified Public Accountants, New York

THE function of the credit man is to review a customer's financial status in order to determine the extent of credit which may be granted and to assure himself that his company's invoices will be paid. Cooperation with credit men is perhaps the most satisfactory and productive of an accountant's credit activities on behalf of his client. The receipt of prompt and accurate information by the credit men results in the immediate establishment of an appropriate line of credit for the business organization.

The accountant's basic responsibility is to his client. This must be remembered at all times in connection with the most contentious elements in day-to-day credit activity—the credit man's written request or telephone call for information. Normal ethical accounting procedures provides rightly that any information with respect to a client should be disseminated by the accountant only with the full knowledge and consent of the client. This consent is usually readily obtainable, since it is to the client's best interests, credit-wise, to cooperate wholeheartedly with the financial and merchandising world. In this manner, confidence is engendered. The average client, knowing little about credit or credit policies, will usually permit the furnishing of information, upon advice of the accountant.

Authority to accountant

It is normal credit practice that customers be requested to supply signed credit statements at regular intervals. Credit statement forms submitted to mercantile establishments, or to the standard credit agencies, by those desiring to establish a line of credit, will normally include therein one of the following statements, or a reasonable facsimile thereof: "We hereby authorize our attorneys, accountants, bank and bankers to supply you with any information you may request."—or—"Our Accountants are authorized to supply you with any supplementary information that may be desired."

By normal practice and extension, this authorization is now deemed to provide permission to the accountant to keep credit men informed on a "running-horse" basis. Information given at regular intervals over the telephone, soundly and ethically, cannot help but bolster the client's credit rating, if warranted. The client's credit status is established on a firm basis. He will not over-extend himself because of the governing controls which are automatically established by the credit man upon receipt of current financial information. Further, the accountant is able to provide important "fill-in" information which the cold financial statement, as written, cannot possibly provide. Many elements of major importance in the establishment of a credit line do not appear on a statement. For example, volume subsequent to the date of the statement, plans for re-financing, additional capitalization, inventory status, the general state of the market, and so forth.

The accountant is not and should not be a credit man. The accountant should not pass on credit, either of his own volition or when urged to do so by a credit grantor. The accountant's function is primarily to provide information upon which a credit decision can be made whether over the telephone or by the submission of a statement. The responsibility for the decision itself rests in the hands of the credit grantor and not the accountant.

Statement forms ununiform

THERE are many standard credit agencies in the United States operating both for general business and for specific industries. Their function is to collect and disseminate information—financial, ethical, historical—in order that subscribing members may have current data upon which to base a sound credit line. Accordingly, the credit agencies and many mercantile establishments have developed forms to be filled out by the prospective credit seeker, which set forth his financial position and operations and provide additional data of interest and importance to the credit grantor.

From the point of view of operation of the accountant's office, it is unfortunate that credit agencies, banks and credit grantors have not yet agreed on a standard form. All credit statement forms vary, one from the other. There is a trend towards standardization, but we are still a long way from that point at which one form of credit statement can be issued to all of those who are concerned with credit information. It has been found, on occasion, that the accountant's own form, which has been signed by the client in order to conform with usual credit requirements, has been deemed to be satisfactory to all concerned. Perhaps this is a step in the right direction.

The preparation of credit report forms and the answering of all of the questions appearing thereon is a basic element of the accountant's credit activity on behalf of his client. Reports should be submitted at regular intervals, depending upon the state of the market, the condition of the client, and the demands of credit grantors. The interval of submission of these statements should be not less than once a year. However, new statements should always be submitted upon the occurrence of any drastic change in the client's financial condition. Many credit grantors and credit men request statements at very short intervals. These requests are sometimes justified, in view of a customer's shaky financial position. However, current information can be obtained directly from the accountant without the need of having statements prepared.

What credit man seeks

AN EXAMINATION of the standard credit form will reveal a lack of classification as between current, fixed, and other assets, and as between current and

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Excerpt from an address delivered before the New State Society of Certified Public Accountants on November 21, 1950.

1950 Fire Loss

Preliminary estimates indicate that the United States building fire loss during 1950 was approximately $697,000,000 as compared with $672,500,000 in 1949. An additional $73,000,000 loss in aircraft, motor vehicles, forests and miscellaneous other fires brought the estimated total 1950 loss to $770,000,000. This estimate is exceeded only by the 1948 loss of $776,262,000.

The National Board of Fire Underwriters reports that the estimated loss for the 11-month period ending November 30, 1950 was $621,640,000, an increase of 3.6 per cent over their estimate of $600,257,000 for the 11-month period ending November 30, 1949.

—from FIRE NEWS, published by the National Fire Protection Association

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long-term liabilities. At first blush, this might be surprising, since the credit man's primary concerns are (1) liquidity, (2) asset and liability ratios, (3) mode and method of operation, (4) profit and loss ratios, (5) conservative presentations.

The answer to this lack of classification is that the credit man desires to formulate his own judgments with respect to classification. He does not desire to be bound by standard accounting conventions if they do not fit his immediate credit requirements. His development of the concept of "trading assets" is a case in point.

In his analysis of a credit statement, the credit man is as much concerned with the basis for the development of figures presented as he is with the figures themselves. A series of questions appears on each of the agencies' and credit grantors' forms, which should be answered in full. The fact that the statement as submitted agrees with another statement which has been prepared by a Certified Public Accountant will lead the credit man to look with greater favor upon the statement as submitted to him. With respect to the accounts as stated, the credit man wants to know about any existing assignments or chattel mortgages. He wants to know if assigned receivables have been included in the accounts receivable, and whether or not the liability for any merchandise received or shipped has been included in the accounts payable. He is interested in knowing whether any receivables are due from affiliated corporations or from officers. He wants to know about contingent liabilities, about sales and purchase commitments, about secured creditors, and he is definitely interested in the income tax status of the reporting credit seeker. All questions should be fully answered in order that your client's credit rating may be properly established.

Some credit agencies and other credit grantors request verifications on their own forms from the accountants whose name has been listed by the credit seeker. These verification forms develop the extent of the audit of the statement as submitted, and the normal questions with respect to verification of accounts appear, item by item. These verification requests should be answered in full, immediately upon receipt. The sooner they are in the hands of credit grantors or credit agencies, the sooner will the client benefit, credit-wise.

In passing, it should be noted that initial credit statements should be prepared by the accountant for submission by a newly acquired client. For a new business, an inception statement setting forth the history of the client and all pertinent facts relative to his capitalization should be issued. If the new client is a going concern, a credit statement evidencing not only the financial condition, but changes in the financial position for the period since inception should be issued to all interested parties.

Must talk same language

IT IS of major importance that the credit man and the accountant talk the same language. All too often they do not. For example, a credit man may call to request "Trial Balance" figures. It is no secret that trial balance figures, taken literally, have no meaning, since they do not reflect accruals and other normal adjustments necessary for the presentation of the true financial status of any business. Trial Balances present figures as prepared by the bookkeeper only, from such data as has been entered on the books. When the credit man asks for a Trial Balance, he means an *adjusted* Trial Balance. Do not take him literally when he does ask for a Trial Balance. Let us not offer misleading factual data.

Good accounting practice provides that accounts receivable reflect only receivables for merchandise. This is the credit man's concept as well. However, there have been occasions where accounts receivable have included amounts due from affiliated companies, or officers, or employees. The accountant should be able to assure the credit man that accounts receivable are merchandise receivables only, and that all credit balances have been segregated.

With respect to merchandise inventory, the credit man is concerned with respect to the percentage of current merchandise to the total. If information is or can be made available with respect to the current character of merchandise, the credit man should be so informed. It will help him in his job.

Accounts payable should include all merchandise liabilities for all merchandise accruals. However, liability for merchandise in transit may be shown separately. Balance due from creditors should be segregated.

Manufacturing overhead is sometimes eliminated from cost of sales. It is well established that manufacturing overhead is properly a segment of the cost of sales. The gross profit percentage will be severely distorted if the manufacturing overhead is not properly set forth, and the credit man should be informed with respect to the composition of the cost of sales figure when he asks about gross profits.

Terminology used by accountants dealing with credit should be examined in the light of the credit man's concept. Although the accounting profession has tried to standardize and clarify terminology, the credit man's terminology should be substituted if your client's interest is thus better served.

Amendments to N.A.C.M. By-Laws will be Presented at Convention in Boston in May

THE National Committee on By-laws for NACM headed by Past National President E. L. Blaine, Jr., of Seattle, after further study and consultation with the Associations and members in all parts of the country and acting upon recommendation of the National Board, will present at the National Convention in Boston on May 13th to 17th, several amendments to the By-laws as passed at the Los Angeles Convention.

The main features of these amendments are increase in number of districts from ten to twelve and increase in number of Directors from 24 to 27.

The following is a statement of the amendments which will be presented and voted on at the Boston Convention.

Increase Dictricts to 12

1. Section 6 (a) of Article III of the By-Laws shall be amended so that it reads as follows:

"For the purposes of voting at regular and special meetings the membership of the Association shall be divided into 12 electoral districts as follows:

District 1.	Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut.
District 2.	New York, New Jersey.
District 3.	Pennsylvania, Maryland, Delaware, Virginia, West Virginia, District of Columbia.
District 4.	Georgia, Florida, North and South Carolina, Alabama.
District 5.	Indiana, Lower Michigan.
District 6.	Illinois, Wisconsin, North Michigan.
District 7.	Kentucky, Tennessee, Ohio.
District 8.	Missouri, Arkansas, Louisiana, Mississippi, Kansas.
District 9.	Iowa, Minnesota, Nebraska, North and South Dakota.
District 10.	Colorado, Utah, Montana, Idaho, Wyoming.
District 11.	Texas, Oklahoma, New Mexico, Arizona.
District 12.	California, Nevada, Oregon, Washington, Hawaii.

"The preceding districts shall further be grouped into three major Divisions as follows: The Eastern Division which shall include Districts 1 to 4; the Central Division which shall include Districts 5 to 9 and 11; the Western Division which shall include Districts 10 and 12.

Provides for 27 Directors

2. Sections 2 and 3 of Article V of the By-Laws shall be amended so that they will read as follows:

"**Section 2.** Number. The Board of Directors shall consist of 31 persons all of whom shall be direct or affiliated members, or designated representatives of such members of the Association in good standing, and shall include the President and three Vice Presidents of equal rank, elected to represent the three major Divisions of this Association. The remaining 27 directors shall be chosen to represent the 12 electoral districts specified in Article III, Section 6, of these By-Laws, provided, however, that there shall be at least one but not more than three such directors chosen for each of said districts, and that not over 50% of the entire membership of the Board of Directors may come from any one Division.

Section 3. Election and Term of Office. One-third of the total number of directors shall be elected annually by ballot, and each director shall hold office for a term of three years following the date of his election and until his successor is elected, but no director shall be eligible for re-election immediately following the completion of a full term of office; provided, however, that nothing herein contained shall be construed to shorten the term of office of any director elected prior to the adoption of these by-laws and provided further that of the three additional directors to be elected for the Association year of 1951-52, one shall be elected for a term of three years, one for a term of two years, and one for a term of one year.

3. Article IV of the By-Laws shall be amended by adding the following as Section 3:

"In addition to the foregoing annual dues a new member registration fee of $10.00 shall be paid to this Association by or for each direct or affiliated member who shall join this Association subsequent to June 1, 1951. In the case of a reinstated member the new member registration fee shall not be payable if reinstatement takes place within four months of the time the member has dropped for non-payment of dues."

Changes in Nominations Committee

4. Sections 1 and 2 of Article VIII shall be amended so that they read as follows:

ARTICLE VIII

Nominations

Section 1. Members. There shall be a Committee on Nominations consisting of 29 representatives of affiliated members or of direct members or direct members, consisting of the following: The last retired President of the Association in order of availability who shall serve as Chairman of such Committee; the next four most recently retired Presidents of the Association in order of their availability; one member and one alternate from each of the 12 electoral districts to be designated by the President, with the approval of the Executive Committee, and one member and one alternate from each of the 12 electoral districts to be designated by the Councillors within such districts, but such alternates shall serve only in case of the absence or inability of the member. The names of the persons constituting the Committee on Nominations shall be announced in the official publication of the Association during the month preceding the annual meeting of members.

Section 2. Duties: The Committee on Nominations shall recommend to the annual meeting the name of one candidate for President one for Vice President from the Eastern Division, one for Vice President from the Central Division, and one for Vice President from the Western Division, and for 9 directors, and for the filling of any existing vacancies among the officers or directors of the Association.

Alternate Proposal on Connecticut

5. Section 6 (a) of Article III shall be amended so that the State of Connecticut is included in District #1 instead of District #2.

Note: In case of the adoption of the first proposed amendment it will not be necessary to vote on the fifth amendment having to do with the change of the State of Connecticut from District #2 to District #1. If the first amendment is not adopted then a separate vote may be taken on this fifth proposal.

The Zebra Corral

ON DECEMBER 1st, Los Angeles Zebra Herd #1 turned out to witness the initiation of ten lowly Mules into the order. With mixed emotions, those who braved the ordeal were: Pat Cayce, J. A. Folger Co.; Edwin P. Dawson, Nesbitt Fruit Products; Gus Diamantidis, Ellis-Klatcher Co.; Ken J. Forshee, National Lead Co.; Charles P. Mack, Herbert H. Horn, Inc.; Howard J. Mitchell, Gladding-McBean & Co.; Ray E. Molitor, L.A.C.M.A.; (Doctor) Clifford G. Rider, Craig, Weller and Laughran; W. Bob Turner, Lord Printing Co.; John B. Katheiser, L.A.C.M.A.

Thanks is given here to our brothers in Oakland, California, who very graciously consented to share their ritual with us.

May I, on behalf of the Los Angeles Herd extend to all our brother Zebras throughout the country our best wishes for a Happy and Prosperous New Year.

E. F. Gueble, Super Zeb
Los Angeles Herd #1
Royal Order of Zebras

In the Modern Office

Remote Control Dictation

THOMAS A. EDISON, Incorporated has developed a new system of "remote control" dictation. The TeleVoice System, as it is called, consists of from one to twenty modified telephones directly connected to a central recording instrument located near the secretary.

The recording instrument, called the Edison TeleVoicewriter, records the dictation received on plastic discs. Transcription of the dictated matter is accomplished with the standard Edison Disc Secretarial Unit.

The TeleVoice Stations (phone extensions) can be located any distance from the TeleVoicewriter. Each Station gives the dictator every one of the services he needs to dictate easily and accurately, including a means of listening back to what he has said and the facility for recording corrections.

Unlike individual dictating machines, the dictator has only those functions to perform which are a direct part of actual dictation. The secretary takes care of changing the discs and index slips. Since the work is delivered to her by direct wire, her flow of work is even and messenger services are minimized.

Provision is made in the system for eliminating conflict between dictators who might wish to use it simultaneously. Because only dictators with a low volume of letter writing are put on the TeleVoice System, the chances of finding the "line in use" are only one in four and even then there is only a one minute wait, according to the Company, because the average letter is only 120 words long. The Company states that the vast majority of those who dictate are "low volume dictators". A positive warning signal in the form of a small red light on each phone goes on when the system is being used, making it unnecessary to pick up the receiver and listen to find out if all is clear.

The result, according to the Company, is the first completely integrated system for business dictation—a dictating system that because of its low cost (only half that of individual machines), makes possible instrument dictation service to every letter or memo writer even though his daily output may be very small.

Tested five years

Five years of research and trial installations have proved the TeleVoice System the fastest and most economical letter writing system ever devised. The Company further reports that TeleVoicewriting has been tried out extensively in hospitals to expedite the handling of medical records which were previously written 80% in longhand. It has been found that with TeleVoice, all hospital records can be made to include two or three times as much information and in one third of the time previously required of doctors. Experience in commercial installations indicate enthusiastic reception by all hands . . . management because of low cost and high efficiency, dictators because phones are natural and easy to use, and secretaries because the work flow is steady, voices change frequently on the same disc, and there is less changing of discs and index slips since all discs come through fully used.

TeleVoice Stations (extensions) are made in both desk type and mount type phones. On each phone base is just one button and the signal light. This button is used both for making corrections and for listening back. In the handle is a "talk switch" that is held down during dictation; it starts and stops the disc on the TeleVoicewriter recording instrument. The dictator records correction marks on the index slip by pressing the button located on the base of the TeleVoice extension while holding the "talk" switch down. To listen back the dictator presses the base button only. Length marks on the index slip are automatically recorded by "hanging up". These features assure the secretary the same ease of transcription she now enjoys with the standard Disc Edison Voicewriter.

Average installation is ten

While as many as twenty TeleVoice Stations can be wired to one TeleVoicewriter recorder, the average for commercial installations is ten. The number of stations to be used initially is determined by a survey of the work load of each dictator involved. Thereafter it is a simple matter to add more extensions if personnel is increased or more central recording units if the work load increases sufficiently to require it. Naturally, anyone who has an extra heavy volume of dictation is given an individual machine, but such people are in the minority, the Company says, because the system permits immediate answering of letters and eliminates "saving up" correspondence until enough has accumulated to call in the stenographer.

The TeleVoice System, Edison says, is especially important at this time because it saves both secretarial and dictator manhours at a time when the country needs them, and does so while using less critical materials than individual dictating machines. Government offices now trying to expand to handle the emergency have already found a serious shortage of trained stenographers. The TeleVoice System provides one answer since it employs a minimum of secretarial personnel, compared with the shorthand method.

Secretaries like it

Secretaries, the Company claims, will like the new system, because they will get a bird's-eye view of their whole department and thereby find their work more interesting. This is so because the TeleVoice Stations are grouped departmentally—thus each TeleVoice secretary will take dictation from the same group of dictators each ray, and will quickly become familiar with the general nature of their work, their professional or business vocabulary, and the people with whom they correspond frequently. This will minimize trips to the dictionary or the files and make for more accurate correspondence.

A ZONE of silence makes the operation of the new Underwood Silent Electric Typewriter completely inaudible only a short distance from the machine. A conventional quiet typewriter must be more than twice as far removed, and the average standard typewriter twelve times as far away to secure the same desirable results, according to an announcement made by Underwood Corporation.

Recognizing the advantages of working in a quiet atmosphere, the problem of silencing the action of a typewriter has been studied by engineers and designers for decades. Typed impressions are made by metal striking paper at the rate of several hundred strokes a minute. Sufficient pressure must be applied to write an original and very often a number of carbon copies. By scientific application of sound insulation, Underwood engineers have silenced the results of the various mechanical operations of the typewriter.

On this new machine, all typing operations are performed on the keyboard, except the insertion and removal of paper. All keys are actuated by electricity, and the soundproof case may be easily opened by the touch of a single key.

These machines are available at Underwood offices throughout the world.

TWO different styles of lockers may be substituted for one or more of the standard file drawers to create private, locked compartments for confidential papers and personal belongings in H-H-M Insulated Record Files, it has just been announced by the Herring-Hall-Marvin Safe Co., of Hamilton, Ohio. The lockers are formed by installing steel doors, securely anchored to the files, in the file drawer openings. The light steel locker, equipped with a key lock is furnished without extra cost. The heavy steel locker, equipped with a combination lock, is furnished at the differential for the file drawer omitted.

Business executives are said to value these new private lockers for personal use as well as for valuable documents. Office Managers like them for safeguarding confidential papers intended for restricted use. The optional use of private lockers is announced as another means of increasing the value-in-use of these popular space-saving files that have won acclaim for such protection features as . . . manipulation-proof combination locks . . . side panels that can't be removed when the doors are locked . . . Underwriters Class "C" 1-Hour label, including drop test, with or without interior . . . Underwriters T-20 burglary label . . . and, key lock in door handle for daytime convenience. Full information and prices may be secured by writing the Herring-Hall-Marvin Safe Co., Hamilton, Ohio.

DELBRIDGE CALCULATING SYSTEMS, 2510 Sutton Ave., St. Louis 17, Mo., announces publication of a new revised edition of the Delbridge Social Security and Withholding Tax Chart. The chart is a hinged-card, visible-index system.

It shows the new withholding deductions effective October 1, 1950 and also shows the 1½% social security deductions.

Credit in the Construction Field

(*Continued from page 13*)

a good reputation for past performance, and is making an honest effort, of course it is to the suppliers' benefit to give him every advantage of the law, and these are things which will have been determined prior to extending him credit.

A quasi-partnership

It is at least partially for the protection of the home-purchaser that we must take into consideration each of the many other facts affecting the successful completion and sale of the contractor's buildings. We must investigate the area in which his project is located; the facilities available, streets, sidewalks, schools, transportation—all of the things which are necessary to draw prospective purchasers. His houses are compared with the established homes in the area, not only as to quality, but also as to whether the price is in keeping with the economic status of the neighborhood, and meets the local zoning regulations.

In a sense, the building supply firm enters into a partnership with the contractor to whom he extends credit. It is essential to the supplier as well as to the contractor that a housing project be successfully completed to the point of sale, not only for the protection of the firm, but also as a responsibility to the home-purchasing public.

What does it mean?

(*Continued from page 22*)

good faith of the figures. Naturally, extensive analysis of figures submitted where good faith is in high question is nothing but an exercise in futility. If the analysis, on the other hand, proceeds in the order suggested in this series, which seems to the author to be a logical sequence, the customer's intent, good or questionable, would already have been determined, and, if questionable, serious study of the financial statement would of course not even be undertaken except to test certain of the figures, such as cash in bank, for additional evidence.)

Individual or consolidated?

If this is a corporation's financial statement, is it an "individual" statement or "consolidated" statement?

I.e., is it a statement of assets and liabilities of a single corporation, or does it represent the combined assets and liabilities of several related corporations?

If the latter, are the companies that are involved a parent corporation and one or more subsidiary corporations, of which the parent organization owns all of the stock?

(Accepted accounting practice, although it leads to some credit involvements which will be brought out in later questions.)

Or, on the other hand, are the corporations whose assets and liabilities have thus been consolidated not parent and subsidiaries, but other "affiliates," i.e., separate corporations whose respective issues of stock are owned by the same individual or group of individuals.

(I narrowly escaped this catch one. Company A, seeking credit accommodations, submitted a consolidated statement of assets and liabilities of Companies A, B, and C. The names of the three companies were such as to suggest that A might be the parent of companies B and C. Further investigation proved that this was not the case: A, B and C were independent corporations although the capital stock of each of them was owned by the same individual. The individual financial statements which I insisted upon

showed that interrelations between the three companies was an inextricable tangle of loans, advances, counter-loans, merchandise sales, guarantees, etc. Obviously the consolidation into one statement was not valid since the assets of all three companies would not be available to the creditors of just one of the companies. And, just as obviously, consolidation was an expedient used to conceal inter-company entanglements and individual weaknesses of the several companies.)

Who will pay you?

If the statement represents consolidated assets and liabilities of parent company and wholly owned subsidiaries, is your order to be charged to the parent company? Or to one of the subsidiaries? If the latter, did the parent company guarantee payment?

(If you are selling a subsidiary and have only a consolidated statement with no guarantee from the parent, you need a separate statement of the assets and liabilities of the subsidiary you are selling. Then, if that statement shows inter-company indebtedness as between your customer and the parent or sister-companies you need separate statements of the other companies involved. In fact, Foulke[1] recommends that in any case you obtain consolida*ting* as well as consolidat*ed* statements, i.e., details showing individual statements and the manner in which they have been consolidated into one statement. See, also, articles on *Problem Parents* in the "Vesty Gates" series by the author, June and July 1948 issues of CREDIT AND FINANCIAL MANAGEMENT.)

If the business submitting the financial statement was a partnership, were only the business assets and liabilities listed? Or have you a statement of the personal assets of the partners as well?

(It is dangerous to rely upon a listing of partners' personal and non-business assets unless you have a listing of non-business liabilities as well, for in case of both business and personal bankruptcy, personal creditors have prior claim on personal assets.)

If the business submitting the statement is a *limited* partnership, have personal assets of limited partners been excluded? (Not available to creditors of the business.)

If the statement was submitted by an individual proprietor, were only the business assets listed?

(If personal property was listed, reduce its value to the extent of the exemption laws of the debtor's State.[2] A statement of additional business interests of a proprietor, however, is valuable supplementary information. A check-up on the financial health of such outside business interests is often advisable, since your proprietor might be tempted to dip into the funds of business #1 to support the needs of venture #2.)

Was the statement made from estimates? Did the owner, partner, or officer make the estimates? Did he sign the statement? Was he assisted and questioned by an investigator in the making of the statement?

(If the statement is part of a Dun report, it is likely that the reporter did some cross-checking and questioning in order to help the maker give a closer estimate and a more complete statement than if he were left to his own devices.)

Are any of the assets that are listed on the estimated statement reported to have been checked with outside sources? Were liabilities so checked? Does the net worth account on the estimated statement show substantial unreconciled increases or decreases when compared to previous statements? Does the statement show obvious omissions? Do merchandise and fixed assets check reasonably with insurance carried? (All clues to the reliability of the estimates.)

If the statement was prepared from books of account, was it prepared solely by owner or company employees? Was it an "inventory statement," i.e. based on a physical inventory taken at date of statement?

Was it prepared by an independent accountant from books and records kept by the owner or his employees? Was that accountant a licensed public accountant? A C.P.A.?

(Dun reports usually identify the accountant as a C.P.A. if he is one. Usually statements described by them as "based on an audit" may be regarded as having been submitted to them with an accountant's certificate or other valid indication that some degree of auditing was done.)

Check the accountant's certificate

To what extent were the books and records of the business checked, verified, or audited by such accountant? Examine his certificate or question him directly if need be for the following information: Was a physical inventory taken by the company's employees? In what respect did accountant check the inventory figures? Was the actual count spot-checked? Was inventory valued by owner or his employees? Was this spot-checked or fully checked by accountant? Who verified extensions? Did accountant verify accounts and notes receivable by direct correspondence with debtor? Did he check completeness and accuracy of liabilities by direct correspondence with vendors? To what extent did accountant examine reserves and determine their adequacy? What reservations did accountant make in his certificate with respect to his responsibility for accuracy?

Was statement dated at close of regular fiscal period as shown by past statements, or as is customary in this kind of business? If not, was explanation given as to reason for change?

Is it complete?

Should the statement be rejected on grounds of incompleteness? Were all the usual elements present: Cash on hand, cash in bank, accounts receivable if credit business is done, merchandise inventory and fixtures or equipment; accounts payable, tax reserves, other accruals, capital stock and surplus, or net worth?

In addition, what other accounts could you expect, based on the information you have gathered about the firm's immediate past operations and methods of doing business?

(Check supplementary data of bank loans, long term debt, and special reserves which should appear on the liability side.

I once missed the boat by overlooking the absence of fixtures and equipment in a statement on Company A. These assets were owned by B, an affiliate, which had gone overboard in the purchase of swank equipment for a new store and had leased such equipment to A at high rental. This bled A white and precipitated bankruptcy. If the absence of fixtures in A's statement had been noted, further investigation would have led to complete disclosure of the heavy fixed expense to which A was fatally committed.)

Does this balance sheet balance? Are the totals mathematically correct, and do total assets agree with total liabilities and capital?

(Errors in transmission render the analysis of a statement futile until correction is obtained.)

Having asked ourselves, our customer, his accountant, and others questions that help us to evaluate the acceptability of the figures that have been submitted to us, we arrive at answers that indicate whether the statement should be thrown out completely, or the extent to which we should qualify our dependence upon it as a whole.

Next month we will proceed to a close examination of its respective items, keeping our over-all reservations prominently in mind.

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[1] Practical Financial Statement Analysis, by Roy A. Foulke, McGraw-Hill, 1945.

[2] See CREDIT MANUAL OF COMMERCIAL LAWS, 1951, *Exemptions*

ASSOCIATION NEWS

Credit and FINANCIAL MANAGEMENT

LOCAL NATIONAL

Annual Pre-Convention Survey to Estimate Attendance Is Under Way

About this time every year credit executives everywhere suddenly realize that the convention is only a short time away. And so it is—only four months away. A large crew of willing hands in Boston has been working hard for months to ensure you a pleasant and comfortable stay in that most fascinating of American cities; it is now time for you to make plans, and make them as definite as anyone can in these here-today-and-gone-tomorrow days.

During this month national convention director Frederick H. Schrop is mailing out to all secretaries questionnaires designed to discover about how many members of each Association *plan* to attend the 55th annual Credit Congress at the Hotel Statler in Boston. Note that word "plan" for that is all that is immediately needed. A preliminary survey is made every year to see just how many people hope in January to be present at the convention in May. The result of that survey gives the convention planners an excellent idea of the number to expect. Year after year the outcome is the same. Give or take 10% of the people as reported as "expected" to attend are those who do attend. So if your secretary asks you for your plans let him have them. It doesn't commit you in any way but it *does* tell the housing committee how many to plan for.

At this writing it is impossible to say what the hotel situation will be in May. Looking back on the last fracas and the lack of hotel accommodations that went with it, it would seem the better part of wisdom to make plans as early as possible. In Washington, they say, one is again standing in line for meals and being invited to go hence when one wanders into a hotel looking for space. It could well be the same in other cities later. That grim fact is mentioned not to discourage attendance at the convention but to *encourage* early plans.

The increasing importance in the minds of members of group meetings is reflected in the fact that this year there are to be one and a half days of those meetings as opposed to the single-day sessions held in previous years. Programs, committee personnel and such details will appear in later issues of this publication. But if any extra "come-on" is needed to persuade members to attend *their* annual meeting this would be it. Group meetings are of immeasurable importance to credit executives who want to do the best job possible. Of the value of group meetings locally there can be no question. The value of National group meetings, therefore, even though they happen but once a year, can not be measured.

MEMBERSHIP PROGRESS REPORT

MAY 1, 1950 to DECEMBER 31, 1950

CLASS AA	Net Gain	Members 12-31-50	Percent.
Louisville	24	1106	102.22%
San Francisco	26	1278	102.08
New York	40	3316	101.22
CLASS A			
Rochester	22	643	103.54%
Seattle	21	652	103.32
Kansas City	18	624	102.97
CLASS B			
Houston	18	281	106.84%
San Diego	21	474	104.63
Minneapolis	22	507	104.54
CLASS C			
Buffalo	22	205	112.02%
Syracuse	15	245	106.52
Des Moines	13	253	105.41
CLASS D			
San Antonio	9	154	106.20%
Green Bay	4	134	103.07
Bridgeport	2	113	101.80
CLASS E			
Charlotte	29	95	143.94%
Miami	29	100	104.85
Terre Haute	12	73	119.67
CLASS F			
Billings	8	65	114.03%
Waterloo	5	51	110.86
Mansfield	4	63	106.78
CLASS G			
Topeka	26	41	273.33%
Lubbock	12	34	154.54
Springfield, Mo.	9	38	131.03

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Kenosha, Wis.: E. B. Moran, manager, Central Division, NACM, addressed the Kiwanis Club here December 1 on "Insurance as a Basis for Credit." He was introduced by V. A. Bingham, credit manager, Macwhyte Company, Kenosha, who is president of the Kiwanis Club.

Credit Men Hold Christmas Parties

As inevitably it must, Christmas came and went in 1950 and, in spite of wars, perils, principalities and powers, was celebrated, as it always has been, with gladness, reverence and thankfulness.

Credit executives, as is their wont, observed the occasion with special parties. Some of them were part business, part pleasure. Some of them dispensed with business entirely and some of them heard inspirational messages from local clergy.

In every case the Christmas meetings called for the giving of gifts and the happiness of meeting with fellow-executives in a very temporarily carefree atmosphere.

In Seattle, Robert T. Keller, attorney-at-law, of the firm of Karr, Tuttle and Campbell, gave an amusing talk on "Life With the Law." He is one of the best after-dinner speakers and raconteurs in the Pacific Northwest.

In Pittsburgh, The Rev. Dr. L. B. Moseley, pastor of the First Baptist Church, gave a Christmas message at the December 19 Credo luncheon.

Three hundred and ninety-six members, wives and guests attended the 51st annual Christmas dinner dance of the Cleveland Association, a nicely rounded figure considering that the dinner capacity of the Cleveland Hotel ballroom is 400.

Milwaukee created some kind of a record with 320 people at their Christmas party and 204 gifts to distribute. The party took place at the Elks Club December 16.

Hartford (Conn.) credit men as usual hied them to the Wethersfield Country Club, the regular meeting ground all year, for a party December 9. No speeches here either; just a dinner dance.

Informality was the keynote, too, in Columbus, where the Chittenden Hotel was the scene of the Christmas party December 19.

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OUR NEW COVER

With this first issue of 1951 we present a new cover and a new cover policy. For some years now we have tried, month by month, to portray on our covers interesting aspects of various industries which combine to make our astonishingly successful business picture.

Starting with this issue we are going to present, with our cover pictures, not so much the industries which make America but rather the men who make American industries click—the credit executives, who by their daily decisions determine the future strength of American businesses.

At no time in the nation's history was the credit executive's decision of greater importance, for at no time in our nation's history was credit such a deciding factor in its existence. Our nation was built on faith—in other words on credit. It will be our nation's credit that will finally mean the difference between continued greatness and lingering infection.

So, to introduce our new cover, and to introduce it with a bang, we are happy to feature the two credit leaders of 1951. A. J. Sutherland, president (right), and Henry H. Heimann, executive manager (left), of the National Association of Credit Men. Under such leadership the Nation's credit is in good hands.

Houston to be Headed By Petroleum Executive

Houston: The Board of Directors of the Houston Association of Credit Men, Inc., held a special meeting at the Lamar Hotel on Tuesday, November 21. The main item of business was the election of officers for the year 1951.

Elected were: W. H. Arnold, Magnolia Petroleum Co., President; Paul A. DuChesne, Houston Natural Gas Corp., Vice President; W. E. Tracy, Houston Paper Co., Treasurer; R. C. Weatherly, Jr., Secretary-Manager.

S. G. Robinson Elected Jacksonville President

Jacksonville: The Jacksonville Association of Credit Men has elected a new slate of officers. They are: S. G. Robinson, Moore Dry Kiln Company, President; W. B. Whaley, Graybar Electric Company, Vice President; John B. Loos, Foremost Dairies, Inc., Vice President; Charles C. Space, Atlantic National Bank, Treasurer; A. H. Dunlop, Jacksonville Association of Credit Men, Inc., Secretary-Manager; G. J. Brown, General Electric Supply Corp., Counselor.

Saginaw-Bay City Credit Men Elect Woman President

Saginaw: Mrs. Marie Cook has been elected president of the Northeastern Michigan Association of Credit Men. The election took place at a meeting held at the Hollywood Grill November 20. She succeeded C. R. Stewart, Flint Warm Air Supply Co.

James L. Fountaine, Bay City, was named vice-president and F. M. Carle, Saginaw, was elected secretary.

Louisville Credit Woman President of Her Company

Louisville: Miss Lillian Madden has been elected president of the Falls City Brewing Company. Miss Madden has represented her company in the Louisville Association of Credit Men since 1931 and as far as is known is the only woman president of a company in her industry.

Detroit's December Meeting Highlighted By Color Travelogue

Detroit: "Red" Barron (T. Elliott Barron to his parents), official travelogue photographer for the Automobile Club of Michigan, entertained the members of the Detroit Association of Credit Men at their December meeting with a show of colored movies of the Canadian Rockies.

The meeting was held at the Detroit Edison Company. Dinner was served in the company cafeteria and the movies were preceded by music by the Michigan Consolidated Gas Company chorus.

Interchange Is Subject of Three-Day Conferences

FIVE regional conferences on Credit Interchange operations are being held during the months of January and February. The first, at the Carter Hotel, Cleveland, January 11-13, and possibly the second, at the Henry Grady Hotel, Atlanta, January 18-20, will be over when this is read. The third meeting is scheduled for January 25-27 at the Sheraton Hotel, Chicago, and the fourth for February 1-3 at the Adolphus Hotel, Dallas. The date for the fifth meeting—to be held on the West Coast—has not yet definitely been settled.

The purpose of the meetings is to get together all Credit Interchange managers, chief clerks and operation managers to discuss in detail mechanical operations of Credit Interchange with the aim of improving service in speed and completeness and streamlining operations.

In previous years these conferences were two-day affairs, but past experience showed that an extra day could well be spent if some subjects were not to be passed over. Therefore the conferences this year will each occupy three days.

The agenda for the conferences is the *Revised Manual of Procedure on Credit Interchange Operations.* It will be discussed step by step from cover to cover.

Henry Heimann Pays Annual Visit to St. Louis Credit Men

St. Louis: Henry H. Heimann, NACM executive manager, paid his annual pre-Christmas visit to the St. Louis Association December 16 to speak at the Association's annual Christmas meeting and dinner dance.

NRCA Executive Heard at Rochester's "Retailers' Night"

Rochester: "Pathways to Profit in Credit" was the topic of an address by Leonard Berry, education director of the National Retail Credit Association, at the December meeting of the Rochester Association of Credit Men.

The December meeting, traditionally "retailers' night," was held jointly with the Rochester Retail Credit Association of which the speaker is a past president. He is also a past director of the Rochester Association of Credit Men.

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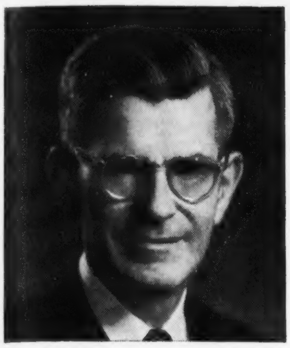
Chicago: The twelfth annual Midwest Food Manufacturers and Allied Lines Credit Conference will be held in Chicago February 26 to March 3 under the sponsorship of the Chicago Association of Credit Men's Service Corporation.



CLEVELAND
Walter N. Lawson
Medusa Portland Cement Co.

SPOKANE
L. E. Morris
Spokane Paper & Stationery Co.

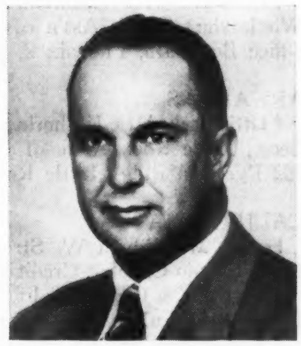
JACKSONVILLE
G. J. Brown
General Electric Supply Corp.

ASSOCIATION PRESIDENTS

The man who is writing this little piece would much rather write about Association presidents than be one in times like these. Credit problem is piling upon problem. Besides his ordinary peacetime worries he has to cope with the effects of government regulations, bigger taxes and all the other irritations which inevitably accompany defense preparations. To these nine hardy souls who have undertaken to lead their Associations during this year our hearty good wishes—and appreciation.

Governor Warren of California, when offered the possible vice-presidency of the United States, stated that he would accept it if it were understood that he would have some real, constructive work to do. Past (NACM) president Charles E. Fernald said much the same thing when he said, in effect, "I have had many honors in my time. I don't want any more unless there is real work to do and you are agreed that I am the man to do it." The same can be said of these men. There *is* work to do, and by accepting appointment they have shown that they are willing to do it and their colleagues, by electing them, have shown that they think they are the men to do it.

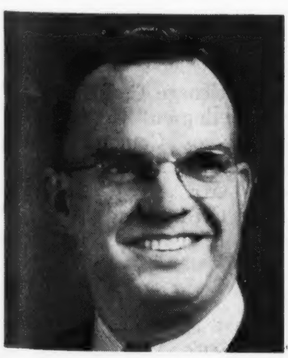
TOPEKA
Stearns H. Belden
Seymour Packing Co.



LUBBOCK
R. C. Hewitt
R & R Supply Co.

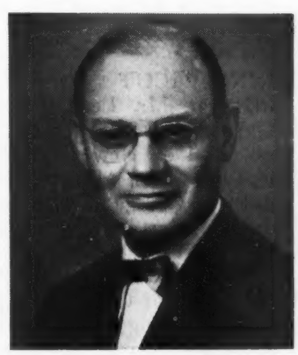
BALTIMORE
James F. Welsh
McCormick & Co., Inc.

TERRE HAUTE
George O. Nichols
Public Loan Co.



SALEM
Aetna H. Carr
W. P. Fuller & Co.

HOUSTON
W. H. Arnold
Magnolia Petrolium Co.



DENVER
R. C. Erickson
U. S. National Bank of Denver

CREDIT ASSOCIATIONS
Affiliated with NACM

LEGEND

These are the Associations which together make up the National Association of Credit Men. They are listed by State and City. Each listing contains the official name of the Association, the name and title of the senior staff member, the office address and zone number if any. Symbols preceding city names indicate that the Association has

† Interchange bureau
*** approved Adjustment bureau**
 # approved Collection bureau

ALABAMA

† **Birmingham.** Mr. W. C. Darby, Secy.-Mgr., Alabama Assn. of Credit Exec., 1736 First Avenue North, Birmingham 3, Alabama.

ARIZONA

† **Phoenix.** Mr. Frank Hill, Secy.-Mgr., Wholesalers Credit Ass'n of Ariz., Post Office Box 3515, Phoenix 2, Arizona.

ARKANSAS

† **Little Rock.** Mrs. Katherine Mosenthin, Secy., Little Rock Assn. of Credit Men, 302 Pyramid Bldg., Little Rock, Ark.

CALIFORNIA

Fresno. Mr. Edwin W. Stroope, Secy.-Mgr., Fresno Chapter, Credit Mgrs. Assn. of Northern & Central Calif., 310 Mason Bldg., 1044 Fulton St., Fresno 1, Calif.

*#† **Los Angeles.** Mr. A. D. Johnson, Secy., Los Angeles Credit Mgrs. Assn., 1501-09 W. 8th St., Los Angeles 14, Calif.

*#† **Oakland.** Mr. Kenneth C. Bugbee, Secy., Wholesalers Cr. Assn. of Oakland, California, 361-17th St., Oakland 12, Calif.

Sacramento. Mr. Earle W. Fouts, Secy., Sacramento Chapter Cr. Mgrs. Assn. of Northern & Central Calif., 618 Eye St., Sacramento 14, Calif.

*#† **San Diego.** Mr. L. Holzman, Exec. Secy.-Mgr. Treas., San Diego Whlse. Cr. Men's Assn., 514 B St., 508 Orpheum Bldg., San Diego 1, Calif.

*#† **San Francisco.** Mr. O. H. Walker, Secy.-Mgr., Credit Mgrs. Assn. of Northern & Central Calif., 717 Market St., San Francisco 3, Calif.

Stockton. Mr. J. D. Campbell, Secy.-Mgr. c/o Credit Mgrs. Assn. of Northern & Central Calif., P. O. Box 1048, Stockton, Calif.

COLORADO

*#† **Denver.** Mr. J. B. McKelvy, Secy.-Mgr., The Rocky Mountain Assn. of Credit Men, 1074 Bannock St., Denver 4, Colo.

CONNECTICUT

Bridgeport. Mr. Leon G. Cates, Secy., Bridgeport Assn. of Credit Men, Edgcomb Steel of New England, Inc., 950 Bridgeport Ave., Milford, Conn.

Hartford. George A. Devanney, Secy., Hartford Assn. of Credit Men, Rourke-End Paper Co., 58 Allyn St., Hartford 1.

New Haven. Henry A. Titus, Secy., New Haven Assn. of Credit Men, Inc., Malleable Iron Fittings Co., Branford, Conn.

Waterbury. Maurice F. Fitzgerald, Secy., Waterbury Assn. of Credit Men, Chase Brass & Copper Co., 236 Grand Ave., Waterbury 91, Conn.

DISTRICT OF COLUMBIA

Washington. Mr. John H. Geiger, Secy.-Treas., Washington Assn. of Credit Men, Inc., 950 Washington Bldg., New York Ave. at 15th St., N.W., Washington 5, D. C.

FLORIDA

*#† **Jacksonville.** A. H. Dunlop, Secy.-Mgr., Jacksonville Assn. of Credit Men, 400-404 Law Exchange Bldg., Post Office Box 1503, Jacksonville, Fla.

† **Miami.** V. L. Wright, Secy.-Mgr., Miami Assn. of Credit Management, P.O. Box 1488, Miami, Fla.

*#† **Tampa.** Mr. Duval M. Smith, Secy., Tampa Assn. of Credit Men, P.O. Box 2128, Tampa 1, Fla.

GEORGIA

*#† **Atlanta.** Mrs. Carmen A. Dobbs, Georgia Assn. of Credit Mgt. Inc., 508-12 Whitehead Bldg., Atlanta, 3.

IDAHO

Boise. Charles E. Williams, Secy., Southern Idaho Assn. of Cr. Men, 611 Grove St., Boise.

Lewiston. Mr. Frank Drong, Secy.-Treas., Lewiston Wholesale Credit Assn., 307 Breier Bldg., Lewiston, Idaho.

ILLINOIS

*#† **Chicago.** Mr. James S. Cox, Exec. Mgr., Chicago Assn. of Credit Men, Room 456, Opera Bldg., 20 N. Wacker Drive, Chicago 6, Ill.

† **Peoria.** Miss E. M. Dunn, Secy.-Mgr., Peoria Assn. of Wholesale Credit Men, 309 S. Jefferson St., Peoria, Ill.

Quincy. Mr. Jack Schofield, Secy., Quincy Assn. of Credit Men, c/o St. Louis Assn. of Credit Men, 505 North 7th St., St. Louis 1, Mo.

Springfield. Miss Eda Mueller, Secy., Springfield Assn. of Credit Men, c/o George A. Mueller Co., Springfield, Ill.

INDIANA

Evansville. Mr. Victor Ahrens, Secy., The Evansville Assn. of Credit Men, 415 Hulman Bldg., Evansville 18, Ind.

Fort Wayne. Mrs. E. M. Nord, Secy., Fort Wayne Assn. of Credit Men, 312 Transfer Bldg., Fort Wayne 2, Ind.

*#† **Indianapolis.** Mr. Merritt Fields, Exec. Mgr., Indianapolis Assn. of Credit Men, Peoples Bank Bldg., Indianapolis 9, Ind.

*# **South Bend.** Mr. Wesley C. Bender, Secy., National Assn. of Credit Men, St. Joseph Valley Chapter, Inc., 413 Whitcomb-Keller Bldg., South Bend 2, Ind.

Terre Haute. Miss Wanita Gilchrist, Secy., The Terre Haute Assn. of Credit Men, c/o Mid Continent Petroleum Co., P.O. Box 298, Terre Haute, Ind.

IOWA

Burlington. Mr. Jesse L. Thomas, Secy.-Treas., Burlington Assn. of Credit Men, 614-16 Farmers & Mer. Bank Bldg., Burlington, Iowa.

Cedar Rapids. Mr. Milo O. Hanzlik, Secy., Cedar Rapids Assn. of Credit Men, 705 Higley Bldg., Cedar Rapids, Iowa.

Davenport. Mr. James Noth, Secy.-Mgr., Natl. Assn. of Credit Men, Quad City Area, Davenport Bank Bldg., Room 608, Davenport, Iowa.

*#† **Des Moines.** Mr. Don E. Neiman, Secy.-Treas., National Assn. of Credit Men, Central-Iowa Unit, 700 Walnut Bldg., Des Moines 7, Iowa.

*#† **Sioux City.** Mr. Harold E. Dye, Secy.-Mgr., National Assn. of Credit Men, Interstate Div., P.O. Box 1260, Sioux City, Iowa.

Waterloo. Mr. Craig H. Mosier, Secy., Waterloo Assn. of Credit Men, 507 Commercial Bldg., Waterloo, Iowa.

KANSAS

*#† **Wichita.** Arthur L. Vermillon, Secy.-Mgr., Wichita Assn. of Cr. Men, 502-6 Bitting Bldg., Wichita 2.

KENTUCKY

Lexington. Mr. George C. Roberts, Sr., Secy.-Mgr., Lexington Credit Men's Assn., 401 Bank of Commerce Bldg., Lexington 31, Ky.

*#† **Louisville.** Mr. S. J. Schneider, Secy., Louisville Credit Men's Assn., 320 West Main St., Louisville 2, Ky.

LOUISIANA

*#† **New Orleans.** Mr. F. L. Lozes, New Orleans Credit Men's Assn., 1007 Queen & Crescent Bldg., Camp St. & Natchez Place, New Orleans 12, La.

Shreveport. Mr. John A. B. Smith, Secy.-

Treas., Shreveport Wholesale Credit Men's Assn., 212 Ardis Bldg. or P.O. Box 371, Shreveport 84, La.

MARYLAND

*#† **Baltimore.** Mr. George J. Lochner, Secy.-Mgr., Baltimore Assn. of Credit Men, 403-404, 5 South St., Baltimore 2, Md.

MASSACHUSETTS

*#† **Boston.** Mr. Henry J. Lamb, Exec. Mgr., Boston Credit Men's Assn., 294 Washington St., Rm. 1013, Boston 11, Mass.

Springfield. Victor A. Biscotti, Secy., Western Mass. Assn. of Cr. Men, 276 Bridge St., Springfield 2.

Worcester. Sylvanus J. Smith, Secy., Worcester County Assn. of Credit Men, 311 Main St., Worcester, Mass.

MICHIGAN

*† **Detroit.** L. E. Phelan, Secy., Louis F. Davis, Operating Mgr., Detroit Assn. of Cr. Men, 2111 Woodward Ave., Detroit, 1.

*#† **Grand Rapids.** Mr. Edward De Groot, Exec. Secy., Grand Rapids Assn. of Credit Men, 602-608 Assn. of Commerce Bldg., Grand Rapids 2, Mich.

Jackson. Mr. Leon H. Aubry, Secy., Jaskson Assn. of Credit Men, 5925 Riverside Drive, Jackson, Mich.

Kalamazoo. Clare Crossley, Secy., Credit Assn. of Southwestern Michigan, Allied Paper Co., 1808 Lake St., Kalamazoo 99, Mich.

Lansing. Mr. Charles R. Wooton, Secy., Lansing Assn. of Credit Men, P.O. Box 1138, Lansing, Mich.

Muskegon. Mrs. Mary Long, Secy.-Treas., Muskegon Assn. of Credit Men, American Coil Spring Co., Muskegon, Mich.

Saginaw. Mr. F. M. Carle, Secy., Northeastern Michigan Assn. of Credit Men, 2917 Congress St., Saginaw, Mich.

MINNESOTA

Duluth. Mr. E. G. Robie, Secy.-Treas., c/o Duluth-Superior Dist. Credit Assn., 700 Christie Bldg., Duluth 2, Mich.

*#† **Minneapolis.** Mr. Brace Bennitt, Secy., Minneapolis Assn. of Credit Men, 502 Thorpe Bldg., Minneapolis 2, Minn.

St. Paul. Jerome W. Beardsley, Secy.-Treas., St. Paul Assn. of Cr. Men, 356 Cedar St., St. Paul, 1.

MISSOURI

Cape Girardeau. J. P. Tlapek, Secy., Cape Girardeau Chapter of St. Louis Assn. of Credit Men, Auto Tire & Parts Co., Inc., Cape Girardeau, Mo.

Hannibal. Mr. T. V. Hilt, Secy., Hannibal Chapter of St. Louis Assn. of Credit Men, c/o Wendt-Souis Co., 10 Collier St., Hannibal, Mo.

Jefferson City. J. E. Wirt, Secy., Central Mo. Chapter, St. Louis Credit Men's Assn. Mid-State Dist. Co., Highway 40 & Hunt Rd., Columbia, Mo.

Joplin. Mrs. Kathrin Scott, Secy., National Assn. of Credit Men, Joplin, Mo. Unit, 2612 Windsor, Joplin, Mo.

*#† **Kansas City.** Mr. J. N. Ham, Secy., Kansas City Wholesale Credit Assn., 1110 Grand Ave., Kansas City 6, Mo.

St. Joseph. Vernon R. Demarest, Secy., St. Joseph Assn. of Credit Men, American Electric Co., 116 North 4th St., St. Joseph 5, Mo.

*#† **St. Louis.** Mr. A. E. Fisher, Secy.-Treas., St. Louis Assn. of Credit Men, 505 North 7th St., St. Louis 1, Mo.

Springfield. Mrs. Blanche Boswell, Secy., National Assn. of Credit Men, Springfield, Mo. Unit, Route No. 5, Box 56, Springfield, Mo.

MONTANA

*#† **Billings.** Mr. W. E. Hargraves, Secy.-Mgr., Montana-Wyoming Assn. of Credit Men, P.O. Box 1395, Billings, Mont.

NEBRASKA

Lincoln. Gene Hastie, Secy.-Treas., Lincoln Assn. of Cr. Men, Western Supply Co., 820 North St., Lincoln.

*#† **Omaha.** Ed. H. Kurtz, Secy. & Exec. Mgr., Omaha Assn. of Credit Men, Sunderland Bldg., 15th & Harney, Omaha 2, Nebr.

NEW JERSEY

* **Newark.** Mr. W. H. Whitney, Exec. Mgr., New Jersey Assn. of Credit Exec., Room 800, 11 Hill St., Newark 2, N. J.

NEW MEXICO

*#† **Albuquerque.** Mr. H. V. Vance, Mgr., Tri-State Assn. of Credit Men, Albuquerque, P.O. Box 1334, Albuquerque, N. M.

Santa Fe. Mrs. Virginia H. Stauffer, Secy., Tri-State Assn. of Credit Men, c/o Mutual Bldg. & Loan Co., 109½ Washington Ave., Santa Fe, N. M.

NEW YORK

Albany. A. Gordon Nelson, Secy., Eastern N. Y. Assn. of Cr. Exec., P.O. Box 725, Albany, 1.

Binghamton. Mrs. Lucile Mielke, Secy., Triple Cities Assn. of Credit Men, Mielke A.B.C. Service Co., P.O. Box 1033, Binghamton, N. Y.

† **Buffalo.** Mr. Ira D. Johnson, Secy., Credit Men's Assn. of Western N. Y., 50 Court St., Buffalo 2, N. Y.

Elmira. W. H. Gear, Secy., N. Y.-Penna. Assn. of Cr. Men, 122 State St., Elmira.

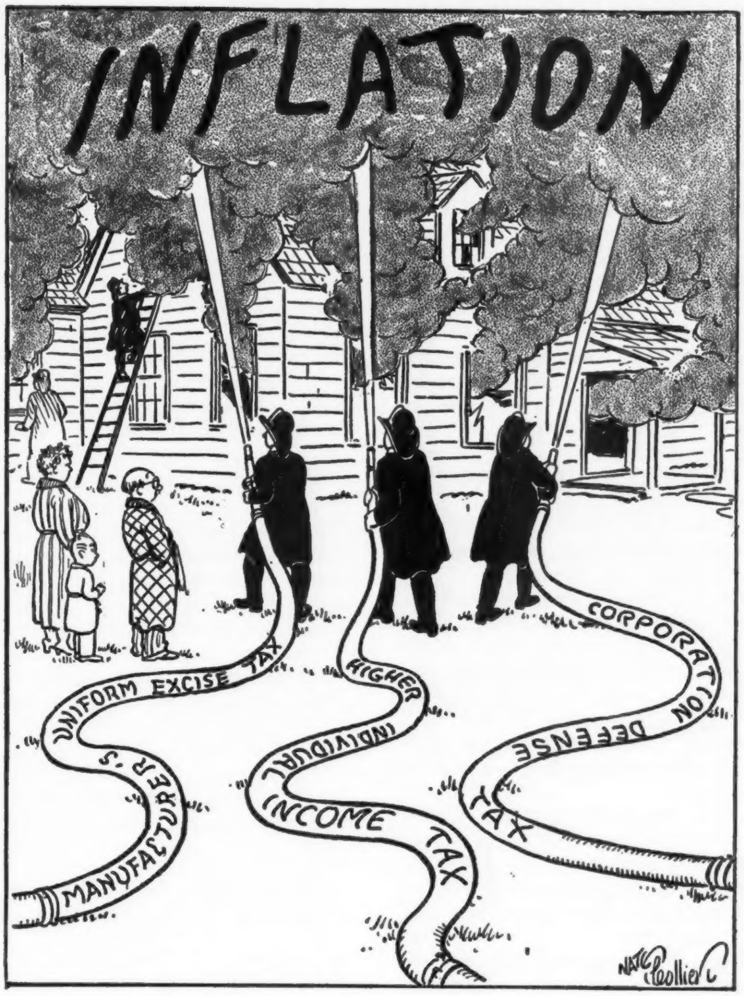
* **New York.** Mr. Mortimer J. Davis, Exec. Mgr.-Secy., New York Credit & Fin. Mgt. Assn., 71 West 23rd St., New York 10, N. Y.

*#† **Rochester.** Mr. Charles J. Briggs, Secy.-Mgr., Rochester Assn. of Credit Men, Inc., 39 Exchange St., Rochester 4, N. Y.

*# **Syracuse.** Mr. Newton D. Bartle, Secy., Syracuse Assn. of Credit Men, 107 University Bldg., Syracuse 2, N. Y.

Utica. Mr. Joseph W. Kyser, Secy., Utica Assn. of Credit Men, Inc., c/o Credit Bureau of Utica, Inc., 8 Elizabeth St., Utica 2, N. Y.

TO FIGHT THE FIRE



NORTH CAROLINA

Charlotte. Wilbert E. Miller, Secy.-Mgr., Piedmont Assn. of Cr. Men, 407 Wilder Bldg., Charlotte 2.

NORTH DAKOTA

Fargo. G. E. Rued, Secy.-Treas., Fargo-Moorhead Assn. of Cr. Men, P.O. Box 1674.

Grand Forks. Willard J. Brintnell, Secy.-Treas., Grand Forks Assn. of Credit Men, Holt Printing Co., 211 S. 4th St., Grand Forks, N. D.

OHIO

Akron. Frank A. Sancic, Secy., Akron Assn. of Cr. Men, Hardwick Standard Chemical Co., Box P, East Akron Sta.

Canton. David Genshaft, Secy.-Treas., Canton Assn. of Credit Men, Superior Prov. Co., P.O. Box 513, Massillon, O.

*#† **Cincinnati.** Mr. H. W. Voss, Secy.-Mgr., Cincinnati Assn. of Credit Men, 722-25 Temple Bar Bldg., Cincinnati 2, O.

*#† **Cleveland.** Mr. Kenneth S. Thomson, Exec. Secy., Cleveland Assn. of Credit Men, 319 Old Arcade Bldg., Cleveland 14, O.

Columbus. A. M. Sutherland, Secy., Columbus Credit Assn., c/o Mill Mutuals, 22 E. Gay St., Columbus 15, O.

*# **Dayton.** Bernice Harnish, Act. Secy., Dayton Assn. of Cr. Men, 410 W. 1st St., Dayton, 2.

Mansfield. Walter F. Hink, Secy.-Treas., NACM, N. Cent. Ohio Div. Inc., North Am. Knitting Co., P.O. Box 350.

#† **Toledo.** G. E. Lawrence, Secy.-Mgr., Toledo Assn. of Credit Men, 246 Spitzer Bldg., Toledo 4, O.

Youngstown. Mr. Carl M. Wolter, Secy., Youngstown Assn. of Credit Men, Rm. 203, Schween-Wagner Bldg., Youngstown 3, O.

OKLAHOMA

*#† **Oklahoma City.** Mr. John M. Cole, Secy.-Mgr., Oklahoma Wholesale Credit Men's Assn., 601 City National Bank Bldg., Oklahoma City 2, Okla.

Tulsa. Mr. R. J. Christian, Mgr., Tulsa Wholesale Credit Mgrs. Assn., 206 Midco Bldg., 302 South Cheyenne Ave., Tulsa 3, Okla.

OREGON

Eugene. Geo. W. Davis, Secy., Cascade Assn. of Cr. Men, Inc., 935 Oak St.

*#† **Portland.** Mr. E. W. Johnson, Genl. Mgr., Portland Assn. of Credit Men, Inc., 337 Pittock Block, Portland 5, Ore.

Salem. Mr. Charles E. Schmitz, Secy., Willamette Assn. of Credit Men, 381 Chemeketa St., Salem, Ore.

PENNSYLVANIA

*# **Allentown.** Mr. J. H. J. Reinhard, Exec. Secy.-Mgr., Lehigh Valley Berks Credit Men, 402 Hunsicker Bldg., Allentown, Pa.

Erie. Mr. Philip Kuntz, Secy., Credit Managers Assn. of Erie, c/o Erie Window Glass Co., 13th & State Sts., Erie, Pa.

Johnstown. Miss Eve McCaffrey, Mgr., The Credit Assn. of Western Pennsylvania, 6th Floor, Swank Bldg., Johnstown, Pa.

Philadelphia. Mr. J. Stanley Thomas, Secy., Credit Men's Assn. of Eastern Pennsylvania, 1218 Chestnut St., 703 Bailey Bldg., Philadelphia 7, Pa.

*#† **Pittsburgh.** D. R. Meredith, Secy.-Mgr., The Credit Assn. of Western Pennsylvania, 701 Commonwealth Annex, Pittsburgh 22, Pa.

RHODE ISLAND

*# **Providence.** Mr. Henry T. Farrell, Exec. Secy., Rhode Island Assn. of Credit Men, 87 Weybosset St., Providence 3, R. I.

SOUTH DAKOTA

Sioux Falls. W. Chappelle, Secy., Sioux Falls Assn. of Credit Men, Power City Radio Co., 209 South First Ave., Sioux Falls, S. D.

TENNESSEE

*#† **Chattanooga.** Mr. G. Royal Neese, Secy., National Assn. of Credit Management, Inc., Cherokee Unit, 1124 Hamilton Natl. Bank Bldg., Chattanooga 2, Tenn.

† **Knoxville.** Mr. W. A. DeGroat, Secy.-Mgr., Knoxville Assn. of Credit Men, 203 Fidelity-Bankers Trust Bldg., P.O. Box 2188, Knoxville 1, Tenn.

*#† **Memphis.** Mr. J. H. Bryan, Secy.-Mgr., Memphis Assn. of Credit Men, 802 McCall Bldg., P.O. Box 344, Memphis 1, Tenn.

Nashville. James J. McCormick, Secy., Nashville Assn. of Credit Men, Nashville Trust Bldg., 2nd Floor, Nashville 3, Tenn.

TEXAS

*#† **Amarillo.** Mr. Scott B. Ormsby, Secy., Tri-State Assn. of Credit Men, P.O. Box 1820, Amarillo, Texas.

Austin. Austin Wholesale Credit Men's Association, P.O. Box 1016, Austin 6, Texas.

*#† **Dallas.** Frank C. Ryburn, Secy.-Exec. Mgr., Dallas Wholesale Credit Mgrs. Assn., Thomas Bldg., Dallas 1, Texas.

*#† **El Paso.** Mr. James L. Vance, Secy.-Mgr., Tri-State Assn. of Credit Men, P.O. Box 1946, El Paso, Texas.

Fort Worth. Mr. J. Harris Murphy, Secy., Fort Worth Assn. of Credit Men, 2301 Westbrook, Fort Worth 11, Texas.

† **Houston.** Mr. R. C. Weatherly, Jr., Secy.-Mgr., Houston Assn. of Credit Men, Inc., 653 M & M Bldg., Houston 2, Texas.

Lubbock. Mrs. Hattie L. Carter, Mgr., Tri-State Assn. of Cr. Men, P.O. Box 1342.

† **San Antonio.** Mr. James Caldwell, Secy.-Mgr., Wholesale Credit Men's Assn., 518½ West Market, San Antonio 5, Texas.

Waco. Mr. O. B. Lusk, Jr., Secy., Waco Wholesale Credit Men's Assn., Inc., c/o Clifton Mfg. Co., P.O. Box 2029, Waco, Texas.

UTAH

*#† **Salt Lake City.** Mr. D. K. Porter, Secy.-Mgr., Inter-Mountain Assn. of Credit Men, P.O. Box 866, Unit No. 10, Salt Lake City 1, Utah.

VIRGINIA

Bristol. J. Gordon Shankel, Secy.-Treas., Appalachian Assn. of Credit Men, Box 963, Bristol, Va.

Norfolk. Cecil W. Carter, Secy., Norfolk-Tidewater Assn. of Cr. Men, Inc., Atlantic Equip. Co., 734 Granby St.

*#† **Richmond.** Mr. Harry Boswell, Secy., Richmond Assn. of Credit Men, 402 Travelers Bldg., Richmond 19, Va.

Roanoke. R. E. Gleason, Mgr., Roanoke Assn. of Credit Men, Inc., P.O. Box 2045, Roanoke, Va.

WASHINGTON

Bellingham. E. L. Parsells, Pres. & Act. Secy., Bellingham Assn. of Cr. Men, Inc., National Grocery Co., 1125 RR & Chestnut.

*#† **Seattle.** Mr. C. King, Secy.-Mgr., Seattle Assn. of Credit Men, 6th Floor, Marion Bldg., Seattle 4, Wash.

Spokane. C. O. Bergan, Secy., Spokane Merchants Assn., 805 Realty Bldg., Spokane 8, Wash.

*# **Tacoma.** Mr. Meredith J. Davies, Secy.-Mgr., Tacoma Assn. of Credit Men, 610 Perkins Bldg., P.O. Box 1572, Tacoma 1, Wash.

WEST VIRGINIA

Bluefield. Mr. Sam E. McCulloch, Secy., The Credit Bureau of Bluefield, Inc., Wholesale Credit Div., P.O. Box 615, Bluefield, W. Va.

Charleston. Mr. Ralph H. Smith, Secy., Charleston Assn. of Credit Men, P.O. Box 926, Charleston 23, W. Va.

† **Clarksburg.** Mr. U. R. Hoffman, Secy., Central West Virginia Credit & Adjustment Bureau, 408-9 Union National Bank Bldg., Clarksburg, W. Va.

† **Huntington.** Mr. C. C. Harrold, Secy.-Treas., Mgr., Tri-State Assn. of Credit Men, Tri-State Credit & Adjustment Bureau, Inc., Box 1120, Huntington 14, W. Va.

Parkersburg. Mr. A. C. Bueter, Secy., Parkersburg-Marietta Assn. of Credit Men, c/o Monongahela Power Co., P.O. Box 1338, Parkersburg, W. Va.

† **Wheeling.** C. E. Smith, Secy.-Mgr., Wheeling Assn. of Credit Men, 620 Central Union Bldg., Wheeling, W. Va.

WISCONSIN

*#† **Green Bay.** Mr. R. C. Creviston, Secy.-Mgr., Northern Wisconsin-Michigan Assn. of Credit Men, P.O. Box 626, 605 Bellin Bldg., Green Bay, Wisc.

Madison. Mr. Frank J. Mazer, Secy., Madison Assn. of Credit Men, Oscar Mayer & Co., 910 Mayer Ave., Madison, Wisc.

*#† **Milwaukee.** Mr. Herman Garness, Secy.-Mgr., Milwaukee Assn. of Credit Men, 808 North Third St., Milwaukee 3, Wisc.

Oshkosh. Charles D. Breon, Secy., Cent. Wis. Assn. of Cr. Men, Cathage Bldg., 28 State St.

TERRITORY OF HAWAII

Honolulu. Mr. Alvin A. Smith, Secy., Honolulu Assn. of Credit Men, c/o Credit Bureau of Hawaii, P.O. Box 3738 Honolulu 10, T. H.

News from the CREDIT WOMEN'S GROUPS

Minneapolis: On Tuesday evening, December 5th, the Minneapolis Wholesale Credit Women held their Christmas dinner party at Dayton's Oak Grill. The highlight of the program was presentation by their President, Miss Dorothy Teckler, of a scholarship plus cabfare to the Minneapolis School of Art for Lynne Duncan. Lynne was a victim of infantile paralysis when she was two years old, and was one of the first patients Sister Kenney looked at when she arrived in Minneapolis. However, Lynne's case was too far advanced and she was left paralyzed from the waist down.

Mrs. Carol Linner Seagren, dramatic artist, headed the entertainment part of the program, and Mr. Jerry Lake and our own Thelma Folstad provided the musical numbers.

Davenport: The Credit Women of the Quad City Unit were well represented at the annual Christmas Party which was held Dec. 7 at the Ship's Wheel on Campbell's Island. In spite of snow which made driving hazardous there was a fine turn-out of members and friends.

The girls held their own Christmas Party on Dec. 11 at the Plantation Club. The Social Committee went "all out" to insure a fine party. Table decorations, favors, attendance prizes, a gift exchange, games and a good dinner left everyone in the Christmas spirit. We also welcomed two new members to our Group at this party. All this was in spite of the weather, again, which threatened to hold up the party.

Boston: The December meeting and Christmas party of the Credit Women's Group of Boston was held Wednesday evening, December 6 at the Pioneer Hotel, with dinner at 6:15 P.M.

Miss Annette Snapper of the Pabst Sales Company, Chicago, Illinois, addressed the group on "Current Conditions in Europe." Miss Snapper has been to Europe eight times since 1943 and is very well versed on the subject. She has spent considerable time in practically every European country and has made it a point to contact the people of the country of all social classes and her talk was made more interesting because of this personal touch. She brought home to the group the conditions in foreign countries as they really are today and the part we must all play in trying to teach real democracy to our neighbors. She left us all with a very keen realization of present conditions, both home and abroad, and the fact that we must all work very hard to keep our country free.

Newark: The annual Christmas party of the New Jersey Credit Women's Group took place December 12 at the Essex House. Santa Claus was present in the person of Curt Wenske, Schneffel Bros.

Bridgeport: The Bridgeport Credit Women's Group held a most successful Christmas party at the Algonquin Club on Tuesday, December 12. Miss Marian R. McSherry, Schenley Industries, Inc., chairman of the National Credit Women's Executive Committee, was the featured speaker; others who addressed the meeting were A. C. D. Bennett, president at the time of the group's founding six years ago, and Miss Anna May Dean, the group's first president.

A fashion show was staged during the meeting by one of the leading stores in Bridgeport.

Denver: The Denver Credit Women's Group's annual Christmas party was held at the Kappa Delta Sorority House. The usual custom of exchanging gifts was dispensed with this year; instead each member donated a dollar each to be given to a charitable organization and as a result the group was able to send a check for $50.00 to the home for mentally defective children.

One of the Denver members, Mrs. Lillie Thomas, was presented with a pin recognizing her 32 years of service to the Rocky Mountain Association of Credit Men during the Association's 55th annual meeting.

Chicago: The Credit Women's Club of Chicago held its January meeting on Tuesday, the 9th, at the Chicago Bar Association. The program included a panel discussion and question and answer period. Miss Marguerite Higgins acted as moderator and speakers were Miss Emily Davidson on collection letters, Miss Catherine Winterstein on "When does attorney action begin?" and Miss Marjorie V. Guthat on individual income tax law changes.

Oakland: The Oakland Credit Women's Group held their regular monthly business meeting at the Robin Hood Inn December 18th. Directly after dinner members drove to the home of Alice Davis, our past president. Here we all participated in fun and informality, playing Christmas games, drawing gift packages from a huge grab bag and partaking of light refreshments.

Regulation V Comes Up for Discussion at Pittsburgh Meeting

Pittsburgh: Regulation V financing (loan guarantees for defense production) was discussed during the December 5 Credo luncheon at the Fort Pitt Hotel. Two speakers were secured to explain the regulation—John W. Kossin, vice-president, Pittsburgh Branch, Federal Reserve Bank of Cleveland, and Elbert L. Frank, vice-president, Farmers Deposit National Bank. Questions were answered regarding application procedures, eligibility of borrowers, interest rates and fees.

Chattanooga Credit Executives Choose New Slate of Officers

Chattanooga: The National Association of Credit Management, Inc. (Cherokee Unit), held their annual meeting and election of officers December 12. This meeting was in the hands of the Wholesale Credit Women's Group. E. B. Moran, manager, central division, National Association of Credit Men, was the principal speaker.

New officers elected for 1951 were: K. H. Heald, Vance Iron & Steel Co., president; W. T. Hutson, Gilman Paint & Varnish Co., first vice-president; E. J. Platt, Pioneer Bank, second vice-president; T. P. Fraser, Brock Candy Co., chairman of the board; Paul Ramsey, Ramsey Electric Supply Co., councillor. G. Royal Neese was re-elected secretary-treasurer.

As officers the Credit Women's Group elected Miss Martha O'Kelley, Corley Manufacturing Co., president; Miss Margaret Hail, The Chattanooga Medicine Co., first vice-president; Miss Sue Wheeler, Crystal Springs Bleachery, second vice-president; Mrs. R. T. Hartman, Davenport Hosiery Mills, recording secretary; Miss Mary Lou Case, Cumberland Portland Cement Co., corresponding secretary; Mrs. Mildred P. House, Hamilton National Bank, treasurer, and Miss Mylola Cooper, American Lava Corp., councillor.

New Orleans Mayor Draws Large Crowd to Meeting

New Orleans: An unusually large number of members attended the November 22 meeting of the New Orleans Association of Credit Men. Mayor De Lesseps S. Morrison spoke on "Building a Future New Orleans."

New Officers at Mansfield

Mansfield: The North Central Ohio Division, NACM, has new officers. President is E. J. Osborne, Westinghouse Electric Corp.; R. M. Young, Mansfield Tire Co., is vice-president and W. F. Hink, North American Knitting Co., is secretary-treasurer.

To Close or Not to Close - - - - -

(Being Duocephalus? Column Written by Proxy)

Here is an answer, Duocephalus, to the question raised in your article in the October 1950 issue of Credit and Financial Management.

No claim is made that this is *THE* answer. However, the experience of our Personal Service Division in writing 100,000 letters in the past year without the conventional salutation and complimentary closing has confirmed our belief that the practice is entirely acceptable to our readers—in fact, we doubt if many of them were aware of the omissions! For this we *DO* claim credit because we think we have found a method that will satisfy even those diehards who object to what you call the "drive-right-in-without-a-word" approach.

We agree with you and your correspondent, Dwight Sherburne, that it would be discourteous, or "at least gauche," to call on a businessman in his office or on a customer in her home without introducing one's self or offering a greeting of some sort.

Both of these formalities are complied with, simply and effectively, in our letters. Before opening the envelope or reading a word of the letter, our customer knows who is writing to him because the Company name appears both in the "corner card" on the outside of the envelope and on the inside in the letterhead. As for the greeting, we accomplish this, not by eliminating the salutation, but rather by expanding it into a whole opening sentence—with the customer's name inserted (as might be in conversation) in a natural and grammatical break near the beginning of the sentence.

Here are several typical openings of this type:

"Thank you, Mrs. Jones, for your payment of $5.50."

"Your inquiry is appreciated, Mrs. Jones, for it give us an opportunity to explain . . ."

"You are right, Mrs. Jones; your bill was incorrectly dated."

"We are sorry to hear, Mrs. Jones, that you have been ill."

An important factor in successfully carrying out this idea is to start the opening sentence on the line traditionally used for the salutation and to align it with the left margin of the inside address—that is, the typing should be in the "block style," or without indentation.

Thus, with the customer's name appearing within the first few words, the effect is similar to the conventional "Dear Mrs. Jones," but with this advantage: instead of that trite greeting, we start off with a friendly reference to the matter which is uppermost in the customer's mind since it prompted her to write to us in the first place. When a bill payment accompanies an inquiry or a criticism, we think it desirable to have the opening convey our thanks for the payment and confirm the amount paid.

Our thinking about complimentary closing follows the same pattern. As far as we can see, "Very truly yours" and similar stereotyped phrases serve no useful purpose except to satisfy tradition. Hence, in our letters, we forget this unnecessary tag line and let a friendly, brief sentence close the letter in a natural way. For instance, is there need to say anything more after writing one of the following closings?

"Won't you call on us if we can be of further service?"

"You have had a good account with us, Mrs. Jones, and we are sorry to lose you as a customer. We hope you enjoy your stay in . . ."

"Should you wish to talk over this matter with me, please call (number and extension) between the hours of (and   ) on any business day except Saturday."

"We are glad to have had this opportunity to correct our error. Thank you for calling it to our attention."

Of course, every letter should have a signature. So each of our writers signs above his typed name in the usual location, two spaces below the body of the letter on the right side of the page. The Company name is not repeated here but we do show the Division with which the writer is affiliated—in this case, "Personal Service."

This matter of salutation and complimentary closing is, of course, only a part of the overall picture of our customer correspondence which, within the past three years, has been subjected to a thorough overhauling. Our former style was undoubtedly "correct" and "businesslike" but—and we are the first to admit it—it was stiff and quite uninteresting. We are now trying to achieve a friendly, informal medium of communication with our customers. Their favorable comments (and we have received hundreds) show that they appreciate it and we believe it is building good will.

As you can see, Duocephalus, we too have been waging "war." Like you, we have reached a state of "Peace (temporary)." But we do not intend to disarm. Vigilance and preparedness will still be our watchwords in the cause of improved customer relations through better correspondence, as in all other forms of customer contact.

Please try to pass along what you hear from other readers. We would be interested in their opinions.

J. F. Rooney
General Commercial Manager
Consolidated Edison Company
of New York, Inc.

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Kansas City: The Kansas City Credit Women's Christmas party on December 13 introduced a novel idea in competitions. Each member had to make her own badge showing name, company, etc. Prizes were awarded for the best badges.

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